# STAYING
# RESILIENT

**ROTARY ENGINEERING LIMITED**

ANNUAL REPORT 2015

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# ROTARY AT A GLANCE

ROTARY is one of the region's leading oil and gas infrastructure services companies with extensive international experience offering fully integrated engineering design, procurement, construction (EPC) and maintenance services to the oil and gas, petroleum and petrochemical industries.

Headquartered in Singapore, the Group has established a strong presence in the Asia-Pacific region and continues to make its mark as a global player. Established in 1972, the Group has forged a reputation built on its hallmark traits of providing quality services, within budget, safely and on-time delivery. Today, Rotary boasts a total strength of about 6,000 employees which include a highly and multi-skilled workforce that forms the mainstay of its core EPC services.

Singapore remains a key market for the Group while it actively seeks business opportunities overseas. Rotary has subsidiaries and associate companies in Malaysia, Thailand, Indonesia, India, China, Vietnam, Saudi Arabia, the United Arab Emirates, Australia and Myanmar.

Rotary Engineering Limited is ISO 9001, ISO14001, OHSAS certified and is listed on the mainboard of Singapore Exchange since 1993.

## OUR CORE VALUES

**S** Safety above all, to protect our equipment, the environment and ourselves

**T** Teamwork to achieve quality products and services

**R** Recognition of employees' contribution and development of their potential

**I** Inculcation of continuous work improvement as our culture

**D** Development of pride and ownership in our work

**E** Excellence in all our efforts to meet our vision

## OUR VISION

We aspire to be an excellent global engineering, procurement and construction company.

## OUR MISSION

Our mission is to provide quality services that consistently meet our clients' needs and expectations through excellence in our operations.

## HSE POLICY STATEMENT

Our mission is to provide a safe working environment for our employees, protection of the environment, safeguarding owners' plants and equipment.

# MAINTAINING OUR STABILITY **NAVIGATING NEW CHALLENGES**

# CHAIRMAN'S MESSAGE

**Dear Shareholders,**

In 2015, we saw the continued decline of the Brent crude oil benchmark price from its peak of US$110[1] per barrel (June 2014) to US$38[1] per barrel as at 31 December 2015.

This decline in oil price caused repercussions in the oil and gas sector, as oil majors and national oil companies reduced capital expenditure and operating expenditure to cope with the consequent fall in revenue.

However, the sharp decline in the crude oil price caused a contango situation in the futures market, pricing oil for future delivery at a premium to oil for immediate delivery.

This situation, based on the fundamental view that energy demand by growing emerging economies remains sound, caused a rush to store oil for future delivery. As a result, tankage at onshore terminals were filled to capacity and offshore floating storage had to fill the gap in storage demand and supply. While some plans for new terminals were put on hold, there were also far-sighted parties that started plans to build more storage, in anticipation of the eventual upturn.

## REVIEW OF FINANCIAL PERFORMANCE

For the 12 months ended 31 December 2015 (FY2015), we recorded net profit attributable to shareholders of S$42.8 million on the back of revenue of S$329.3 million. In line with the general downturn in the oil and gas sector, revenue and gross profit declined by 52% and 32%, respectively.

Gross profit margin increased from 17% in FY2014 to 24% in FY2015 due to effective cost management and improved operational efficiency, and higher value-add services. Profit after tax and minority interests as a percentage of revenue was 13%. Earnings per share came in at 7.5 cents for FY2015.

In view of the resilient performance of FY2015, and in appreciation of the continued support from our Shareholders, the Board is proposing a dividend of 1.5 Singapore cents

1 Source: Brent crude Futures ICE (Intercontinental Exchange).

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We have also adopted another approach to address new opportunities. Besides tenders and direct negotiations, we explored striking strategic partnerships and taking an equity stake in projects to align our interest with that of the potential client. Having skin in the game reflects our confidence in our experience and expertise, in the project, and in the longer term prospects of the industry.

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per ordinary share. This works out to a dividend yield of 4.8 % based on the closing share price of 31.0 Singapore cents as at 24 February 2016.

In terms of revenue by region, the home market of Singapore led with 56%. This is attributable to the number of projects that are still available from the specialty chemicals companies and the petrochemical ecosystem in Jurong Island.

The Middle East was second with a 30% revenue contribution. Two major projects in the Middle East that are ongoing are the VLCC[2] jetty project for the Port of Fujairah and the Improvements Works Project for the Fujairah Oil Terminal.

In FY2015, the rest of ASEAN accounted for 14% of revenue, mainly due to Thailand. Our Thai business unit has a reputation for quality fabrication work and it is currently involved in the shop fabrication and field erection of two 160,000$m^3$ LNG tanks.

During the year, we also secured a number of smaller projects that utilised Rotary's diverse skillsets and expertise. These projects involved civil engineering, structural steel, mechanical, piping and electrical and instrumentation (E&I) work. We also carried out maintenance and upgrading work for refineries, specialty chemicals plants, and petrochemical complexes.

## REVIEW OF FINANCIAL POSITION

Rotary's balance sheet remains strong with cash and short-term deposits of S$118.2 million. Equity attributable to shareholders increased 13% from S$256.4 million to S$289.1 million. Net Asset Value per ordinary share (NAV) increased by 5.7 Singapore cents from 45.2 Singapore cents (31 December 2014) to 50.9 Singapore cents (31 December 2015). The Group is in a net cash position and its debt equity ratio is a low 0.03 times.

## RESILIENT GROWTH

During the year, we faced slipping revenues and business opportunities, amidst a tight labour market and high operating costs. We maintained an even keel by being nimble, to respond well to changing market dynamics. We managed the downturn with a strong balance sheet, emphasis on high productivity and a diverse source of projects from a wider customer base, and thus stayed resilient.

## CONTINUAL PRODUCTIVITY IMPROVEMENT

We worked proactively to reduce costs, increase operational efficiency and raise group productivity.

Internally, we reviewed and tweaked all work processes, sharpened our project management skills, and introduced more automation, mechanisation and use of Information Technology. Externally, our strong project management skills complemented our ability to execute complex projects that demanded precise coordination among many parties and required real-time monitoring of the ground situation.

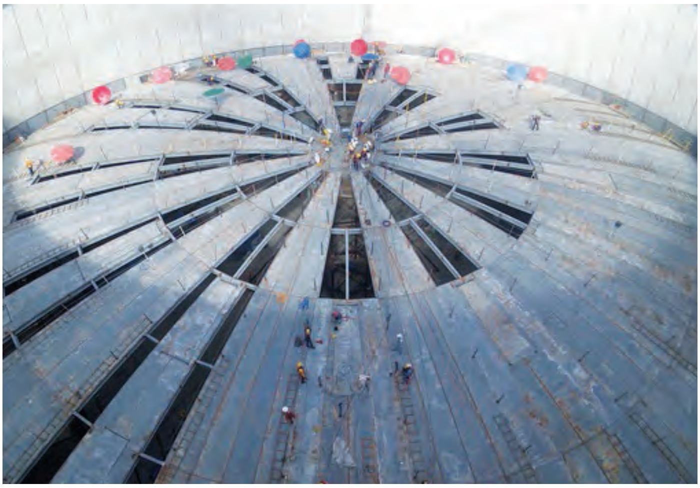
The effects of our focus on cost management and operational efficiency are tangible. We saw an increase in our gross profit margin from 17% in FY2014 to 24% in FY2015, which is reasonably good as construction engineering companies tend to have smaller margins due to the huge capital outlay and uncertainties of project work. We aim to sustain similar efforts in the coming year.

We also strived to provide clients with one-stop

2 Very Large Crude Carrier.

engineering and construction solutions tailored to the needs of their individual requirements.

In many projects, we were involved in the client's front end engineering design (FEED) of the plant, and were able to integrate our engineering with our clients' functional requirement and standards. This brought about higher margins for us and greater savings for our clients.



### WIDER APPLICATION OF OUR SKILLS

Over the years, we have developed a well-trained workforce led by experienced supervisors who have expertise in a wide range of skills. We are skillful in tankage and structural steel fabrication and construction, and have also accumulated a vast knowledge base of highly-specialised skills in Piping, E&I, Mechanical, Civil Engineering, Extra-Low Voltage systems, and advanced welding techniques.

These acquired skills enable us to bid for smaller single-discipline projects that may not necessarily be from the oil and gas sector. Our track record and the precision and fine-tolerances demanded of oil and gas work give us a competitive advantage.

Our wider skillsets and expertise enabled us to secure several new contracts. We have an ongoing project for the construction of two 160,000m$^3$ cryogenic tanks for storing LNG, which requires specialised construction skills for their double walls and insulation.

Our fabrication units have done complex work such as jacketed pressure vessels and heat exchangers. We have done work on marine jetties that required civil engineering expertise as well as E&I and mechanical work for the jetty topsides. We are able to reduce the number of man hours required for such

CHAIRMAN'S STATEMENT

work, by building a 3D model of the project to work on the topside as a module, while simultaneously doing the civil work for the jetty.

Our E&I unit completed many projects for the installation and integration of complete systems for security, fire control and communication as well as sensors and instrumentation for the process equipment of plants.

The diversity of our skillsets positions us well to bid for a greater number of projects, and help us manage the down cycle better.

## NOT ALL GLOOM AND DOOM IN OIL AND GAS

However, not all is gloom and doom in the oil and gas sector from which we derive much of our revenue. While economies that are dependent on oil and gas revenue may suffer a setback, the economies of countries that are net importers of oil are given a boost as cheaper oil prices translate to cheaper energy and transportation costs.

Net oil-importing countries, with sizeable land-mass, big populations and on the cusp of economic transformation and urbanisation, will generate demand for energy and oil-derived consumer products. This will lead to growth in the demand for storage

infrastructure. Countries in the region that fit this category are Indonesia and Vietnam.

Some niches in the oil and gas sector have benefited from the low crude price. Refineries are flourishing because the low crude price has resulted in an increase in demand for petroleum products, as well as an increase in refining margins. The energy-intensive chemicals companies have also benefited from lower energy costs as well as lower feedstock costs.

Our Maintenance unit has secured contracts from refineries, petrochemical complexes and specialty chemicals companies not only for turnaround maintenance but also for upgrading and expansion of their facilities.

## QUALITY ASSURANCE & QUALITY CONTROL (QA/QC)

Rigorous Quality Assurance and Quality Control (QA/QC) standards make good business sense for us, as the quality of our work has earned us the track record and reputation that attracts repeat customers.

We successfully completed the Surveillance Audit for ISO 9001:2008 Quality Management System in 2015.

In line with our ethos of continuous improvement, the QA/QC Department conducted a workshop in the month of June 2015 for Quality Managers & Project Quality Leads to exchange ideas, brainstorm problems, and arrive at best possible & feasible solutions. In this workshop we also conducted a "Root Cause Analysis" training for the participants to quickly and accurately identify the root of a problem, to resolve it in the shortest time possible.

Likewise, ongoing "Quality Reviews" are organised on a bi-monthly basis to discuss quality issues in ongoing projects and to ensure that timely preventive measures and necessary corrections are taken.

## HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

A good HSE track record is an integral part of Rotary's DNA. We have long subscribed to the principle that Safety, Quality and Productivity (SQP) work hand-in-hand; without good HSE practices, the best engineering and project management skills are useless.

Having a high standard of HSE is good for us internally and is also a definite competitive advantage when it comes to bidding for projects. High HSE standards are a requirement for the larger, well-known companies such as the oil majors.

In FY2015, we successfully completed the Surveillance Audit for ISO 14001 & OHSAS 18001. The audit result showed that the HSE management system of the companies in the Group has met the requirements of the ISO 14001:2014 and OHSAS 18001:2007 standards.

Year after year, the Group has consistently garnered awards for its performance in HSE.

**Royal Society for the Prevention of Accidents (RoSPA) awards**

The parent company Rotary was once again commended for excellence in health & safety at work in the construction engineering industry sector. This is a competitive sector award that recognises organisations that have demonstrated the best health and safety management performance within a specific industry sector.

Companies in the Group that achieved RoSPA Gold awards in 2015 are: Rotary Electrical & Instrumentation Pte Ltd, Rotary IMC Pte Ltd, Rotary-Thai Construction Pte Ltd, and Rotary Mechnical & Construction Co Pte Ltd.

**Work Safety and Health Council (WSH) awards**

- 1 WSH Performance GOLD Award[3]
- 3 WSH Performance Silver Awards[4]
- 3 Safety & Health Recognition for Projects award[5]


3 Awarded to Rotary Electrical & Instrumentation Pte Ltd.
4 Awarded to Rotary Engineering Limited, Rotary Mechanical & Construction Co Pte Ltd and Rotary-Thai Construction Pte Ltd.
5 Awarded to Rotary Electrical & Instrumentation Pte Ltd (Tankstore Phase 6 Project), Rotary Electrical & Instrumentation Pte Ltd (Lube Park Shared Facility Project), Rotary Mechanical & Construction Co Ptd Ltd (LEO Silver Project).

# CHAIRMAN'S STATEMENT

## BUSINESS DEVELOPMENT

In FY2015, our business development strategy was to target smaller projects in the home market while looking out for scarcer, bigger projects in the Middle East.

We have also adopted another approach to address new opportunities. Besides tenders and direct negotiations, we explored striking strategic partnerships and taking an equity stake in projects to align our interest with that of the potential client. Having skin in the game reflects our confidence in our experience and expertise, in the project, and in the longer term prospects of the industry.

In Singapore, we secured several small projects for the EPC and maintenance of specialty chemicals and lubricants plants. Many of the mid-size companies in these industries do not have an internal engineering arm.

We are able to offer these companies One-stop Solution from FEED to engineering design, to construction of plant, installation of equipment and commissioning.

In the Middle East, we are following up on enquiries from the United Arab Emirates (UAE) and Saudi Arabia. Despite the downturn in the price of oil, Fujairah, in the UAE, still has plans to be a major oil bunkering and trading hub. Fujairah's strategic location on the Eastern side of the Strait of Hormuz has already made it the second largest bunkering hub in the world behind Singapore. It plans to strengthen its position by building more storage tanks.

We have established a business development presence in Vietnam to ride on what we expect will be a substantial increase in the demand for storage. Vietnam, with a population of 80 million, is a net oil importer and the Vietnamese economy is on the cusp of a take-off stage where urbanisation leads to high growth in the demand for energy and transportation.

We are putting our eyes and ears on the ground in Indonesia- another net oil-importing country with a huge population of 250 million. The Indonesian archipalego comprises 17,000 islands spanning a distance of more than 5,000 kilometers from East to West. As its economy grows, the country needs to increase its stockpile of oil and petroleum products. This requires the construction of big and small-scale storage and distribution infrastructure, spread throughout the archipalego.

Business development will seek out opportunities that align with the Group's twin strategies for resilient growth. The first strategy is to occupy all parts of the storage and distribution value chain. The second strategy is to own and operate assets that will yield a stable income to smoothen the project-based income. Our 10% stake in the Merak Indonesia terminal is a step in this direction.


## THE WAY FORWARD

Our fundamentals remain sound. We have a strong balance sheet with a strong cash hoard. We are resilient and will ride out the current slump in the business.

We have moved up the liquid bulk storage and distribution value chain by offering a wider range of services and being a one-stop solution centre for our customers. We will continue to build a highly skilled workforce, increase our operational efficiency, and offer innovative, high value-add solutions. This is our clear strategy and the direction we are focused on.

> Business development will seek out opportunities that align with the Group's twin strategies for resilient growth. The first strategy is to occupy all parts of the storage and distribution value chain. The second strategy is to own and operate assets that will yield a stable income to smoothen the project-based income. Our 10% stake in the Merak Indonesia terminal is a step in this direction.

## ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express my deepest appreciation to our shareholders, customers, business associates and suppliers for their unwavering support and trust in us. My deep-felt gratitude also goes to the management and staff for their hard work and dedication, without which we would not be where we are today.

Last but not least, I would like to thank the Board of Directors for their invaluable guidance.

**Mr Chia Kim Piow, Roger**
Chairman and Managing Director

# BOARD OF DIRECTORS

**FROM LEFT TO RIGHT:**

Keith Tay Ah Kee
Lam Khin Khui
Roger Chia Kim Piow
William Chia Kim Chua
Jenny Wong Oi Moi
Badri Narayanan Santhana Krishnan

## ROGER CHIA KIM PIOW

*Chairman & Managing Director*

Roger Chia Kim Piow is the Founder and Chairman of the Rotary Group of Companies. With more than 40 years of experience in plant and facility design and construction, he is instrumental in developing the Group from a sub-contractor to a multinational turnkey engineering design and construction group. Under his stewardship, the Group has gained recognition as one of the region's leading players in the oil and gas, petroleum, petrochemical and pharmaceutical industries. His impeccable leadership led Rotary Engineering Limited to be prized Enterprise of the Year at the Singapore Business Award 2008. He was awarded Chief Executive Officer of the Year (Companies with $300 million to $1 billion in market capitalization) at the Singapore Corporate Awards 2009, Businessman of the Year at the Singapore Business Awards 2011, and conferred the Public Service Medal by the President of Singapore in 2010 in recognition of his community services.

## WILLIAM CHIA KIM CHUA

*Executive Director*

Chia Kim Chua has been with Rotary Engineering since 1980 and was appointed to the Board in 1982. He has overseen the Group's Project Management Department and was involved in many of the Group's major EPC projects in Singapore and overseas. His extensive experience is an invaluable contribution in his current advisory role for the general management and operations of the Group.

## LAM KHIN KHUI

*Independent Director*

Lam Khin Khui was appointed to the Board in 1993. He brought along with him a wealth of experience from working with both private and government-linked companies. He holds a Bachelor in Chemical Engineering from the University of Melbourne and a Diploma in Business Administration from the National University of Singapore.

## KEITH TAY AH KEE

*Independent Director*

Keith Tay is a Chartered Accountant by profession and was formerly Chairman and Managing Partner of an international accounting firm. He was President of the Institute of Certified Public Accountants of Singapore (now known as Institute of Singapore Chartered Accountants) from 1982 to 1992. He is currently Chairman of Stirling Coleman Capital Ltd and holds non-executive directorships in several other companies. He is on the Board of Singapore International Chamber of Commerce of which he was Chairman from 1995 to 1997. He has also served as Adjunct Professor in the School of Accountancy and Business of Nanyang Technological University.

## BADRI NARAYANAN SANTHANA KRISHNAN

*Non-Executive Director*

Badri Narayanan Santhana Krishnan was appointed to the Board in 2008. He is currently working with Oman Investment Fund, as an integral part of the fund's Asia Pacific Investment Strategy. Prior to joining the Fund, he held positions with Citigroup and Goldman Sachs in London, Dubai and India. Currently located in Oman, he specialises in investment and portfolio management. He is a Chartered Financial Analyst.

## JENNY WONG OI MOI

*Non-Executive Director*

Jenny Wong Oi Moi has been associated with the Group since 1975. She is currently a Non-Executive and Non-Independent Director of the Board.

# SENIOR MANAGEMENT

**FROM LEFT TO RIGHT:**

Loh Nee Chuan
Ho Se Wai
Freddy Neo
Leong Sook Han

## LOH NEE CHUAN

*Construction Director*
*Rotary Engineering Limited*

Loh Nee Chuan has been with Rotary Engineering since July 1983. He holds a Diploma in Construction and Business Studies. He has many years of experience working on different projects for Rotary Engineering in several countries. Between 2000 and 2002, he was the Construction Manager in the EPC projects for Oiltanking Phase V & Chem 1 & 2 in Pulau Seraya. In 2005, he spearheaded the construction of the EPC BP Zhuhai LPG Phase-II project in China.

He was the Area Construction Manager for the SATORP Project in Saudi Arabia from 2010 to 2013. After which, he was assigned as the Project Manager for Fujairah Oil Terminal (FOT) in United Arab Emirates from 2013 to 2015.

After successfully completing and handing over the FOT Project, Nee Chuan returned to Singapore and was promoted to Construction Director in May 2015.

## HO SE WAI

*Chief Information Officer*
*Rotary Engineering Limited*

Ho Se Wai joined the Group in 2009 as CIO with over 20 years of operational and professional experience in IT. Prior to joining the Group, she has held various positions in multi-national companies, both in the IT vendor environment as well as in-house operations. These include heading application support functions, regional PMO for a major IT outsource program, and managing a SAP consulting team. She graduated from the National University of Singapore with a Bachelor of Science (Computer Science and Information Systems).

## FREDDY NEO

*Chief Operating Officer*
*Rotary Engineering Limited*

Freddy Neo joined Rotary Engineering as its Chief Operating Officer in September 2015. Freddy oversees the management and operation of the Group's business units, as well as QHSE, Project Management and Engineering Departments.

Freddy brings with him over 30 years of experience in the marine and offshore oil and gas industries.

He started his career with a Marine Engineering Diploma in 1983 and spent the initial 6 years as a seagoing engineer attaining Class One Marine Engineer certification. In 1993, Freddy was awarded a scholarship to read Bachelor of Marine Engineering (Honours) degree from the University of Newcastle Upon Tyne and was awarded the RW Mann prize. He also attended the Harvard University PMD Programme in 2002.

Freddy's wide range of experience in the next 24 years were in both local and overseas shipyard operations, marketing and project management. His expertise includes organization and systems rationalization, innovation and sustainability, ship repair, production and process management, infrastructure project development, EPC project management and execution of offshore specialized shipbuilding and conversion. He had also participated in numerous local industry HSE, Quality and Productivity improvement platforms.

## LEONG SOOK HAN

*Chief Financial Officer*
*Rotary Engineering Limited*

Han joined the Group in 2015 and is a seasoned finance practitioner with over 20 years of work experience in the oil and gas sector, fast moving consumer electronics business and energy efficiency & infrastructure divisions of global multinational companies. She has spent consecutively more than 10 years of her career in international assignments based in Hong Kong, Europe and China.

Her experience included various areas of business finance, strategic planning, treasury, M&A, business development and divestment. She has acted as a key member of the leadership & management team in the various regional and global roles that she has undertaken.

Han holds a Master in Applied Finance from the Macquarie University and a Bachelor of Accountancy from the National University of Singapore. She is also a non-practising member of the Institute of Singapore Certified Accountants (ISCA).

# SENIOR MANAGEMENT

**FROM LEFT TO RIGHT:**

Koh Chun Peng
Meena Natarajan
Edgar Yeo
Choo Kwok Ian

## KOH CHUN PENG

*Business Development Director*
*Rotary Engineering Limited*

Koh Chun Peng joined the group in 2007, and has more than 15 years of market entry and business development experience. He heads the Group's Business Development Department. Chun Peng covers the key markets of South-East Asia and the Middle East, and leads project origination, tender preparation, commercial negotiation and investments. In addition, he heads the Group's corporate strategy and planning function.

A former government scholar, he has held managerial positions in Singapore government's overseas investment promotion arm, IE Singapore. Chun Peng also has professional experience in strategy consulting. He holds a MSc (Management) and BBA (Hons) from the National University of Singapore and has attended an Executive Program jointly conducted by Beijing University and Fudan University.

## MEENA NATARAJAN

*Engineering Director*
*Rotary Engineering Limited*

Meena Natarajan joined the group in 2001 as a Process Engineer. She is currently Engineering Director and brings with her 15 years of Engineering Design and Commissioning experience. She heads the Group's Engineering Department, including Commissioning.

Since joining the Group in 2001, she has been involved in Engineering design of oil & gas and petrochemical projects for Oiltanking, Vopak, Universal Terminal, SATORP, Total, Shell, ExxonMobil and various other clients in Asia and Middle East. She works closely with other Directors and Senior Management to formulate the Group's Engineering policies, procedures and Engineering execution methods. She also works closely with Project Management and Procurement Team to deliver Optimized Design solutions for EPC Projects.

Meena holds a Bachelor Degree of Engineering (Chemical) from Annamalai University, India and Masters Degree of Science (Chemical Engineering) from the National University of Singapore.

## EDGAR YEO

*General Manager*
*Project Management*
*Rotary Engineering Limited*

Edgar joined Rotary Engineering in February 2016. He is in charge of Contracts Management, Costing Control and Management, as well as Project Planning.

Edgar has close to 20 years of experience in the Marine Industry, having started his career in a Singapore-based shipyard in 1997, and thereafter to an offshore oil and gas company. Edgar's initial experience was on the production side, before moving on to manage various marine conversion as the Contracts Manager in projects ranging from dredgers to FPSO vessels.

Edgar holds a Masters Degree in Marine Technology from the University of Newcastle Upon Tyne.

## CHOO KWOK IAN

*Senior Project Director*
*Project Management*
*Rotary Engineering Limited*

Choo Kwok Ian is the Senior Project Director of the Group's Project Management Department. He first joined the Group in 2004 as Project Engineer and now helms the department with a team of project managers and engineers for multiple projects and proposals. He works closely with the Engineering Department, Procurement Department and the other Business Units of the Group to lead the team and spearhead EPC Projects. Ian holds an Honours degree in Engineering (Mechanical) from the National University of Singapore.

# SENIOR MANAGEMENT

**FROM LEFT TO RIGHT:**

Edwina Wong
Tony Fam
Kellin Tham
Ho Seng Hong

## EDWINA WONG

*General Manager*
*Rotary IMC Pte Ltd*

Edwina Wong brings with her more than 10 years of maintenance and operations experience in petroleum, chemicals plants and storage terminals in Singapore. As the General Manager, she oversees the daily operations of Rotary IMC's maintenance projects, such as Plant Shutdowns, Turnarounds and Scheduled/Ad-hoc Maintenance. Together with Senior Management, Edwina ensures project execution is in compliance with the Group's various policies. Edwina holds a MBA in Business Administration from University of Murdoch, Degree in Mechanical Engineering from University of South Australia and a Diploma in Mechanical Engineering.

## TONY FAM

*Group General Manager*
*Thai Rotary Engineering Public Co. Ltd*
*Rotary-Thai Construction Pte Ltd*

Tony joined Rotary-Thai Construction Pte Ltd ("RTC") as the Project Manager in March 2007, and was concurrently assigned as the Vice President for Thai Rotary Engineering Public Co. Ltd. ("TREL") responsible for the business development division in Thailand. Both RTC and TREL are Rotary Group subsidiary companies.

In 2011, Tony was appointed as the General Manager for both RTC and TREL, and was subsequently promoted to the Group General Manager position in 2013.

Tony spearheads both RTC and TREL in the field of tankage construction business, and focuses on driving sustainable growth and profitability for the Group.

Tony brings with him more than 28 years of related industry experiences in both project management and business development fields. He graduated with a Diploma in Mechanical Engineering from Singapore Polytechnic in 1986 and also holds an advanced Diploma in Business Administration from University of Bradford (UK).

## KELLIN THAM

*Procurement Director*
*Rotary Engineering Limited*
*Managing Director*
*Rotary Electrical & Instrumentation Pte Ltd*
*Supermec Pte Ltd*

Kellin Tham has played an instrumental role in the Group's various operations since joining the Group more than 20 years ago. On a daily basis, her responsibilities include overseeing the execution of all Electrical and Instrumentation construction and EPC projects, driving the business growth of Supermec Pte Ltd, and managing all local and overseas procurement needs of the Group.

## HO SENG HONG

*General Manager*
*Rotary Mechanical & Construction Co. Pte Ltd*

Ho Seng Hong joined Rotary Mechanical & Construction in 2016 as General Manager.

He has 15 years of working experience with multi-national and local companies in the marine, offshore, and oil & gas industries. Seng Hong has successfully managed numerous projects relating to ship repairs & conversions, topside modules construction, FPSO new-building / upgrading works in Singapore as well as China. He was also involved in operations and infrastructure & development of a new shipyard setup in India.

Seng Hong holds a Masters of Science in Marine Technology from University of Newcastle Upon Tyne, UK and a Bachelors (Hons) Degree in Naval Architecture & Ocean Engineering from Universities of Glasgow & Strathclyde, UK.

# SENIOR MANAGEMENT

**FROM LEFT TO RIGHT:**

Ramu Baskar
Charles Tan
Andy Ng
James Robert Prakash

## RAMU BASKAR

*Project Director*
*Rotary Electrical & Instrumentation Pte Ltd*
*Rotary Mec (M) Snd Bhd*

Ramu Baskar joined the Group in 1993 as a Project Engineer after completing his Masters degree from the National University of Singapore. He is currently Project Director and since then has successfully managed electrical and instrumentation projects, Maintenance (Capex) Works in Singapore and Malaysia, including E&I works for Arkema Thiochemicals (Malaysia), Evonik Me5 Project and Synthomer (Malaysia) XSBR Project. Baskar also has experience working on projects in Indonesia, China, Saudi Arabia, Thailand and India. His knowledge in electrical and instrumentation works for the oil & gas, pharmaceutical, renewable & bio-diesel projects is an asset to the Group. He is also certified in Construction Safety. He is currently in charge of executing and completing the electrical works for the SRC Mogas Cogen Project.

## CHARLES TAN

*Senior Manager*
*QHSE*
*Rotary Engineering Limited*

Charles Tan joined Rotary Engineering in February 2016 as Senior Quality, Health, Safety and Environment (QHSE) Manager. His responsibility is to ensure that all aspects of QHSE for all projects under Rotary Engineering Group are being executed as per contractual agreement and to customers' satisfaction. He also ensures that the operations within Rotary Group are in line with local and industrial regulatory requirements and standards.

Prior to joining Rotary Engineering, Charles spent 10 years working in the shipbuilding and ship repairing industry. His last appointment was Deputy HSE Manager at a Singapore-based shipyard where his key responsibilities included daily manpower planning and deployment for various projects and vessels, ensuring operational compliance to local and industrial HSE standards, annual internal audits, customer management and involvement in project tendering.

Charles graduated from the University of Queensland in Chemical Engineering and was trained as an integrated lead auditor for ISO 9001, ISO 14001 and OHSAS 18001.

## ANDY NG

*General Manager*
*Roil Pte Ltd*
*Oro Storage Asset Management Pte Ltd*

Andy Ng is the General Manager of ROIL Pte Ltd and Oro Storage Asset Management Pte Ltd, both of which are Rotary Group subsidiary companies. He joined the Group in 2010 as the Senior Manager of Business Development responsible for securing projects in the Middle East and North Asia markets. He also played an instrumental role in a year-long effort in refreshing the Group's 40 year old brand.

He brings with him 10 years of experience in marketing, business development and IT. He holds a M.Sc. in Technopreneurship & Innovation and a Bachelor of Engineering in Electrical and Electronic from Nanyang Technological University. Prior to joining Rotary, he was the Chief Operating Officer of NextView Pte Ltd.

## JAMES ROBERT PRAKASH

*Project Director*
*Rotary Electrical & Instrumentation Pte Ltd*

James Robert Prakash joined the Group in 1998. He has since then successfully managed numerous electrical, instrumentation, ELV, HVAC and automation projects in Singapore, Middle East and other countries, and successfully implemented terminal automation systems for refinery & storage tankfarms for Saudi Aramco, Total, Shell, Oiltanking, Vopak, Universal Terminal, BP, Power Seraya, Sinopec, Exxon Mobil and various other clients. He has 19 years of experience in oil and gas electrical and instrumentation projects. He works closely with the Project Management and Engineering teams to deliver electrical and instrumentation plans for EPC projects, while also managing E&I Department's stand-alone projects.
James Robert holds a Bachelor of Engineering in Instrumentation & Controls and a Master Degree in Business Administration.

# SENIOR MANAGEMENT

**FROM LEFT TO RIGHT:**

Boban Joseph
Tommy Chia
Jennie Tan
Udomdech Chakaew

## BOBAN JOSEPH

*Country Manager*
*United Arab Emirates/Oman*

Boban Joseph is the Country Manager for United Arab Emirates (UAE) and Oman regions, where the Group has established its Middle East presence. He joined the Group in 2013 as Deputy Project Manager of the prestigious Fujairah Oil Terminal project. In August 2014, he was appointed as Regional Business Development Manager for UAE and Oman operations. He is a results-oriented manager, and an experienced team leader. His focus is to reinforce the Group's market position in the Middle East, by strengthening the business relationships with its clients.

Boban holds a Bachelor's Degree in Mechanical Engineering from Mahatma Gandhi University (India) and Professional Diploma in Planning and CADD. Prior to joining Rotary, he worked with Saudi Aramco Total Refining and Petrochemical Company (SATORP) in the Project Management Team.

## TOMMY CHIA

*Country Director*
*(Kingdom Of Saudi Arabia)*
*Petrol Steel Company Limited*
*Rotary Arabia Company Limited*

Tommy Chia joined the Group in 2014 and is the Country Director for the Kingdom of Saudi Arabia, with his key focus on strategising the expansion of Rotary Arabia Co Ltd and Petrol Steel Co Ltd in the Kingdom. Tommy leads his team with more than 30 years of business experience in the Middle East. His business networks and experience in the marine and offshore oil and gas field is an invaluable asset for the expansion of the Group's footprint in Saudi Arabia to grow it into a stronger market presence.

## JENNIE TAN

*Commercial and Contracts Manager*
*Rotary Engineering Limited*

Jennie graduated from the National University of Singapore in 1984 and was called to the Singapore Legal Bar in 1985. She has practised as an Advocate and Solicitor in Singapore with experience in corporate law, disputes, conveyancing and family law and attained the position of head of litigation during her practice.

Prior to her joining the Group in April 2014, Jennie held senior positions in trust companies as the general manager and deputy general manager. She was also the Resident Manager overseeing the formulation and implementation of organisational administration and strategies, regulatory compliance and management of client relationships in both the private trust and corporate trust businesses for one of Singapore's public-listed trust companies.

She joined Rotary Engineering as its Commercial and Contracts Manager but has since 2015 overseen the management of the Procurement Department which encompasses the Procurement, Warehouse & Logistics and Legal & Commercial Divisions.

Jennie is an associate member of the Singapore Academy of Law and the Singapore Trustees Association.

## UDOMDECH CHAKAEW

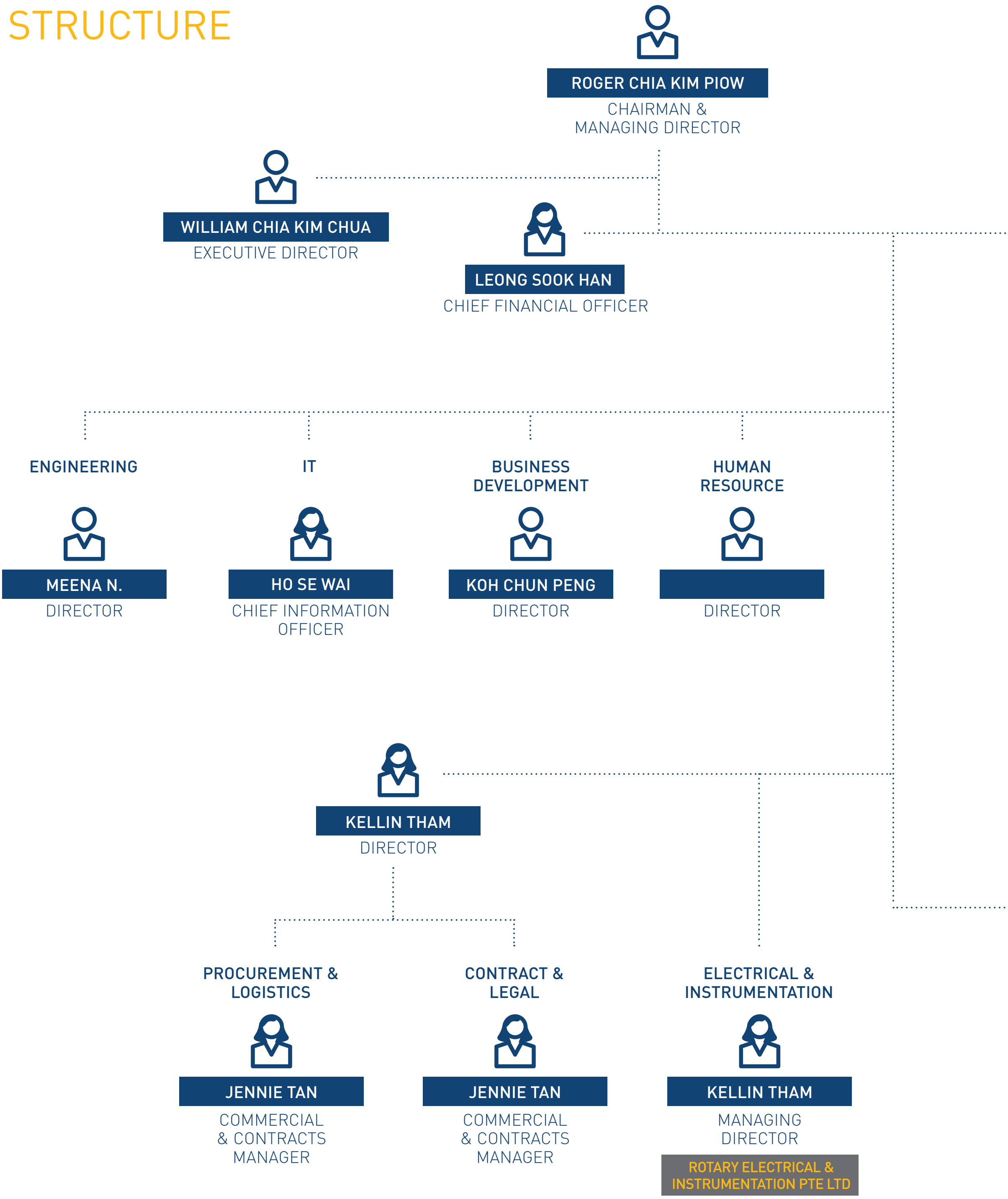
*General Manager*
*Thai Rotary Engineering Public Co. Ltd.*

Udomdech joined Thai Rotary Engineering Public Co. Ltd. ("TREL") in 1996 as a Field Engineer and was promoted to the Project Manager position in 2004 responsible for both the Project Task Force and Business Development/Proposal divisions. In 2013, Udomdech was appointed as the General Manager of TREL.

He brings with him more than 20 years of experience in construction and project management, and has played a key role in the business development activities of Thai Rotary.

Udomdech holds a Bachelor of Mechanical Engineering from the King Mongkut's University of Technology, Thonburi. He also holds a Masters of Business Administration from the Srinakharinwirot University.

# ORGANISATION STRUCTURE



**FREDDY NEO**
CHIEF OPERATING OFFICER

**PROJECT MANAGEMENT DEPARTMENT**

**CHOO KWOK IAN**
SENIOR PROJECT DIRECTOR

**QUALITY, HEALTH, SAFETY & ENVIRONMENT**

**CHARLES TAN JIA HAO**
SENIOR MANAGER

**MECHANICAL**

**HO SENG HONG**
GENERAL MANAGER
ROTARY MECHANICAL & CONSTRUCTION CO PTE LTD

**TANKAGE**

**TONY FAM**
GENERAL MANAGER
ROTARY-THAI CONSTRUCTION PTE LTD

**MAINTENANCE**

**EDWINA WONG**
GENERAL MANAGER
ROTARY IMC PTE LTD

| | | |
|---|---|---|
| **SINGAPORE** | **Roger Chia Kim Piow (Chairman/MD)** | Rotary Electrical & Instrumentation Pte Ltd, Rotary Mechanical & Construction Co Pte Ltd, Rotary IMC Pte Ltd, Rotary-Thai Construction Pte Ltd |
| **THAILAND** | **Udomdech Chakaew (General Manager)** | Thai Rotary Engineering Public Company Limited |
| **SAUDI ARABIA** | **Tommy Chia (Country Director)** | Petrol Steel Company Limited<br>Rotary Arabia Company Limited |
| **UAE** | **Boban Joseph (Country Manager)** | Rotary Engineering Fujairah FZE, Rotary Engineering Limited – Abu Dhabi, Rotary Engineering Limited – Fujairah |
| **MALAYSIA** | **Mohd Jazli (Acting General Manager)** | Rotary MEC (Malaysia) Sdn Bhd |
| **INDONESIA** | **William Chia Kim Chua (Executive Director)** | P.T. Rotary Engineering Indonesia |
| **OMAN** | **Boban Joseph (Country Manager)** | Rotary Engineering Limited (Commercial Representative Bureau) |


STRIKE

# EXPANDING OUR SPECTRUM OF SERVICES
## **MOVING UP THE VALUE CHAIN**

# GLOBAL PRESENCE


**LEGEND**

Rotary's Offices

Rotary's Global Footprint


CHINA
INDIA
MYANMAR
THAILAND
VIETNAM
SRI LANKA
BRUNEI
MALAYSIA
SINGAPORE
INDONESIA
AUSTRALIA

# OPERATIONS REVIEW

Rotary Engineering Limited takes pride in its continual efforts to increase operational efficiency. This emphasis on high productivity in operations is responsible for the resilience of our financial performance in FY2015.

Additionally, our knowledge base of skills accumulated over more than four decades, goes beyond tankage construction to include the related disciplines of piping, mechanical, electrical and instrumentation, and civil engineering. Due to the stricter specifications, greater precision, and finer tolerances required in oil and gas work, we have attained a high level of proficiency in these skills and we are able to compete in the market for a wide variety of projects some of which may not necessarily be related to oil and gas, thus enabling us to weather temporary adverse conditions in our business environment.

In FY2015, Rotary responded to the challenging business environment by taking on several smaller ticket size projects of between S$5 million to S$20 million in addition to the larger ongoing projects in its order book.

The Group's four core business units comprising Tankage, E&I, Mechanical, and Maintenance work closely with the Project Management unit to ensure that projects are delivered on time, safely, within budget, and meet the client's expectations. However, while the various business units work together for multi-discipline projects, they are also capable of stand-alone projects. For example, the E&I business unit and the Mechanical business unit have several projects of their own that utilise their single discipline skills.

The Maintenance unit's also had several new contracts as the low oil price encouraged refineries and chemicals companies to expand or upgrade their facilities to cater to increased demand. Maintenance contracts are not restricted to cleaning and servicing of machinery parts and equipment but may include repair and modifications to process and manufacturing facilities.

The following paragraphs briefly describe the status of some of Rotary Engineering's projects as at the publication date of this Annual Report.

## THE MIDDLE EAST

While some major plans for huge petrochemical complexes have been put on hold, improvement and expansion works on existing facilities to support current production of oil and gas are still available.

## FUJAIRAH, UNITED ARAB EMIRATES (UAE)

### 1. Fujairah Oil Terminal

**Location:** Fujairah

**Project description:** EPC contract for brownfield additional multidisciplinary works on Fujairah Oil Terminal, which was successfully

completed by Rotary in December 2014. Involved steel structural as well as piping, mechanical, E&I and civil work.
**Status:** Project tail-end

**2. VLCC Jetty**
**Location:** Port of Fujairah
**Project description:** EPC of a jetty and topside for VLCC (Very Large Crude Carrier). Involves steel structural, piping, mechanical, E&I as well as civil work and their integration. Items include marine loading arms, switch gears, pumps, transformers, UPS, and telecommunication fibre optic cables.
**Status:** Ongoing

## SAUDI ARABIA

**1. Elastomer Plant project**
**Location:** Jubail
**Project description:** EPC of tankage for several types of feedstock as well as water. Tankage with various types of roof such as cone, dome, tanks with internal floater, as well as spherical tank.
Involved in FEED (front end engineering design), offshore logistical support as well as civil engineering.
**Status:** Completed in September 2015

**2. Natural Gas Grid project**
**Location:** Riyadh
**Project description:** EPC of tankage for a Natural Gas supply expansion project. This project involved both onsite construction as well as offsite prefabrication of tanks for raw water, potable water, as well as diesel.
**Status:** Ongoing

### 3. ISF project

**Location:** Jubail
**Project description:** EPC of tanks with internal floater for storage of MTBE (Methyl-tert Butyl Methyl) and gasoline.
**Status:** Ongoing

### SIJORI (SINGAPORE, JOHOR, RIAU ISLANDS)

Singapore's land constrain means that it has to place higher priority on higher value-add projects with smaller volume tankage such as specialty chemicals, pharmaceutical and lubricants plants. However, Johor and the Riau islands with their larger land area, are able to accommodate big tank farms and terminals.

### 1. Tankstore Tank Farm project

**Location:** Pulau Busing Island, Singapore
**Project description:** An offshore tank farm project with tie-in to jetty and topsides. Offshore location posed several challenges for transportation, housing and food for workers, and transportation of materials. Innovations for this project included onsite workers' dormitory, water supply and cement batching plant. Use of prefabricated steel structural modules and pipe spools from our Batam prefabrication center and transported to the island by our own barge considerably increased the efficiency of construction.
**Status:** Project tail-end


**2. Lube Park Shared Facility project**
**Location:** Tuas, Singapore
**Project description:** Multi-disciplinary EPC project of shared facilities for three oil majors. EPC of 77 cone roof tanks including insulated tanks and tanks with heating controls for base oil as well as additives. Application of diverse skills including civil work such as piling and construction of buildings and roads. The concept of shared facility also called for a big network of pipes, pumps and valves and the accompanying E&I works for metering and control of inventory.
**Status:** Project tail-end

**3. Bottom Stripper / Single Stage Flasher (BS/SSF) project**
**Location:** Shell Chemical, Pulau Seraya, Singapore
**Project description:** EPC of steel structures, installation of static and rotating equipment. This project included insulation works, painting works and work on GRP (Glass Reinforced Plastic) piping.
**Status:** Project tail-end

**4. Maintenance & Turnaround Contract (TAR) for Industrial Gases Manufacturer**
**Location:** Jurong Island, Singapore
**Project description:** Machinery, facilities and equipment in this plant included gasifiers, steam traps, cooling towers, boilers and heat exchangers. As with any maintenance turn-around contract, minimising shutdown time is important to the client. Rotary Maintenance Company's decades of experience is a competitive advantage in this field.
**Status:** Ongoing maintenance contract

### 5. Changi Airport Terminal 4 project

**Location:** Changi, Singapore.
**Project description:** A mainly piping work project for the fuel supply system in the new terminal. However, the piping work involved complex work on control valves and a tie-in to the existing system. The work also included civil work on earth retaining and piling.
**Status:** Ongoing

### 6. Assorted E&I projects

**Location:** Singapore
**Project description:** A selection of five ongoing projects by the E&I business unit with a primarily E&I component. Their scope of work includes: VFD (Variable Frequency Drive), ELV (Extra Low Voltage) systems, panels, transformers and motors, control rooms, substations, switchgear, cable, earthing and lightning works, instrumentation works.
**Status:** Ongoing

## MEKONG DELTA REGION

The Mekong Delta region comprises Vietnam, Thailand, Laos and Cambodia. As a net oil importer with a rapid rate of urbanisation, Vietnam with its huge population of 80 million holds much potential for our business.

In Thailand we are firmly established in the Map Ta Phut petrochemical complex area of Rayong province, with a reputation for providing high quality fabrication services.

### 1. MPPPU-MIDAS project

**Location:** Rayong, Thailand
**Project description:** Design, procurement and fabrication of carbon steel jacketed pressure vessels. The work involved sophisticated fabrication and welding techniques.
**Status:** Ongoing

### 2. LNG Receiving Terminal

**Location:** Rayong, Thailand
**Project description:** Fabrication and construction of two 160,000 $m^3$ LNG tanks. Innovative use of new supporting equipment such as automatic welding bead shavers, plasma gouging machines and improvised erection methodology such as double-block plates welding to enhance both the productivity and quality of work on-site.
**Status:** Ongoing

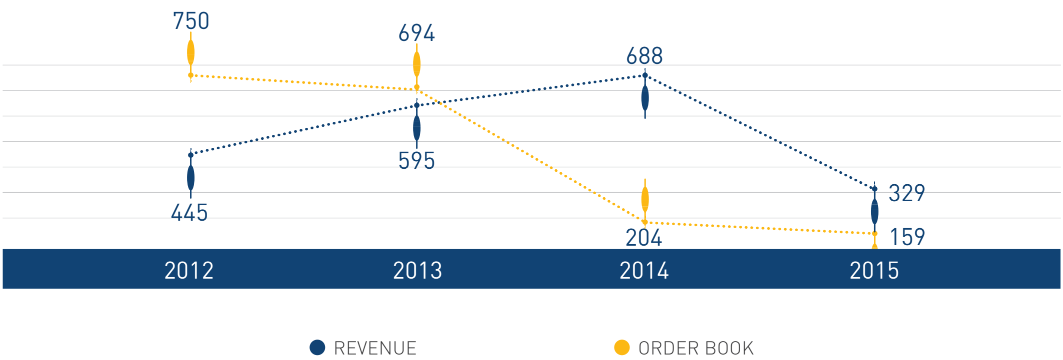
### 3. High TAN (Total Acid Number) Materials Upgrading project

**Location:** Rayong, Thailand
**Project description:** Design, procurement of heat exchangers with weld overlay. Overlay material was both stainless steel and alloy steel.
**Status:** Ongoing

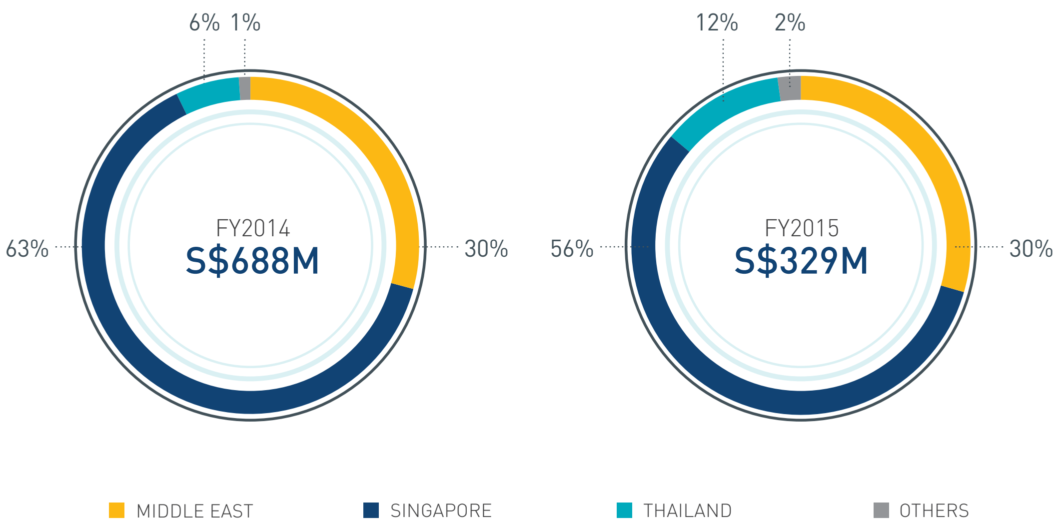
**4. UHV Project-Tank Farm**
**Location:** Rayong, Thailand
**Project description:** Spherical and ATM tanks for storage of LPG, Propylene, Naptha and other chemicals. Project was unique for having more than one million safety man hours achieved. It was also a good example of the successful integration of manpower from overseas (Rotary's Global Workforce) and the local Thai team for the job.
**Status:** Completed in December 2015

# ROTARY SCORECARD

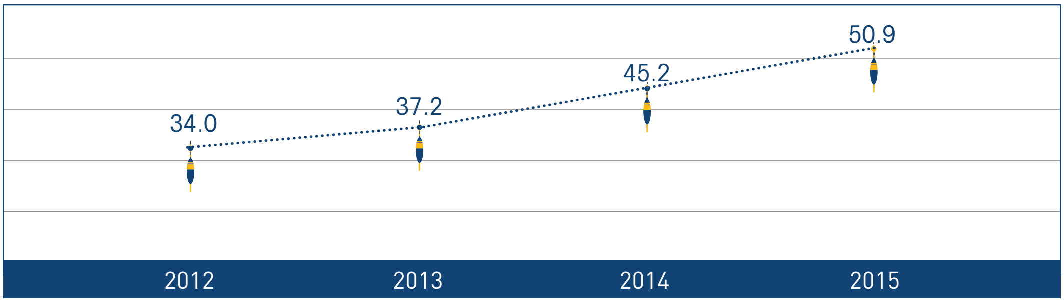
## REVENUE & ORDER BOOK (S$ MILLION)



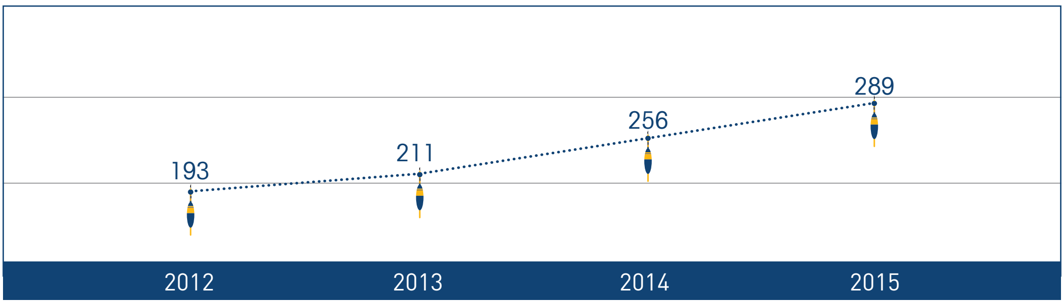

## REVENUE BREAKDOWN BY GEOGRAPHIC SEGMENT



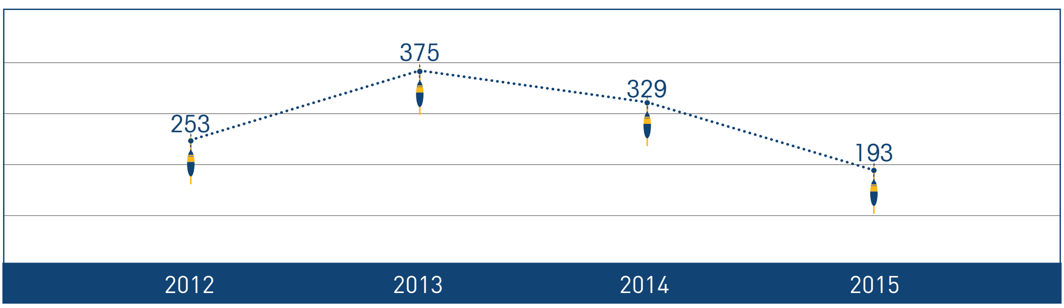
## NET ASSET VALUE PER SHARE (CENTS)




## SHAREHOLDERS' FUND (S$ MILLION)




## MARKET CAPITALISATION (S$ MILLION)



# ENHANCING OUR OPERATIONS **DRIVING PRODUCTIVITY TO DELIVER LONG-TERM GROWTH**

# FINANCIAL REPORT

# CODE OF CORPORATE GOVERNANCE

## INTRODUCTION

The Board of Directors (the "Board") and Management of Rotary Engineering Limited (the "Company") and its subsidiaries (the "Group") are committed to maintaining high standards of corporate governance.

Reference is made to the Code of Corporate Governance 2012 as revised by the Monetary Authority of Singapore on 2 May 2012 (the "Code"). The Board and Management have taken steps to the best it can to align the governance framework with the recommendations of the Code.

The following report outlines the Company's corporate governance policies and practices that were in place.

## BOARD OF DIRECTORS

### Principles 1, 2, 4 and 6

The Board of Directors is accountable to the shareholders and is responsible for maintaining a high standard of corporate governance and promoting continuing improvements in Board effectiveness. The Group strives to be consistent with the Code.

The Board comprises six Directors, of whom two are Executive, two are Non-Executive and two are Independent Directors. Accordingly, pursuant to Guideline 2.1 of the Code, at least one-third of the Board is made up of Independent Directors. The Board is made up of individuals from different professional, technical and financial backgrounds. The core competencies, qualifications, skills, experience, and knowledge are extensive and complementary. There is also a strong balance between the Executive and Non-Executive Directors and a strong and independent element on the Board, with no individual or small group of individuals dominating the Board's decision making. Key information on Directors is set out on pages 12 to 13 of the Annual Report.

The Board is cognizant of the need to comply by its annual general meeting in 2018, with Guideline 2.2 of the Code which provides that where the Chairman is, *inter alia*, part of the management team or not an Independent Director, the Independent Directors should make up at least half of the Board.

The Board oversees the management of the business and affairs of the Group and ensures adequate financial and human resources are in place, sets the Group's corporate and strategic directions, appoints directors to the Board and approves the appointment of key managerial personnel, major funding, investment proposals and divestment, and reviews the financial performance of the Group. Where necessary, additional Board meetings are held to address significant issues or approve major transactions.

Certain matters specifically reserved for decision by the Board include the strategies and objectives of the Group, announcement of quarterly and full year results and release of annual reports, issuance of shares, declaration of interim dividends and proposed final dividends, convening of shareholders' meetings, material acquisition/investment, divestment or capital expenditure, corporate or financial restructuring and interested person transactions.

# CODE OF CORPORATE GOVERNANCE

The two Executive Directors form the Executive Committee that acts for the Board in supervising the management of the Group's business and affairs. Monthly business review meetings, presided by at least one Executive Director, are held to review the progress of projects and operational performance. Major issues are highlighted for follow-up and corrective actions.

To facilitate effective management, certain functions have been assigned to various Board committees, each of which has its own written terms of reference. The composition of the Board and Board Committees are:

| | | | Committee Membership | |
|---|---|---|---|---|
| **Director** | **Nature of Board Member** | **Audit** | **Nominating** | **Remuneration** |
| Roger Chia Kim Piow | Chairman & Managing Director | | Member | |
| Chia Kim Chua | Executive | | | |
| Jenny Wong Oi Moi | Non-Executive | | | |
| Badri Narayanan Santhana Krishnan | Non-Executive | Member | | Member |
| Lam Khin Khui | Independent | Member | Chairman | Chairman |
| Keith Tay Ah Kee | Independent | Chairman | Member | Member |

The Board is familiar with the Group's business and governance practices. The Directors also receive updates and relevant briefings, particularly on relevant new laws, regulations and changing commercial risks, from time to time. There is a programme to ensure new directors receive relevant briefings and orientation before appointment to the Board.

The Board has separate and independent access to the Company's Management and the Company Secretary at all times.

The role of the Company Secretary includes responsibility for ensuring that Board procedures are followed and applicable rules and regulations are complied with. Under the direction of the Chairman, the Company Secretary also ensures good information flows within the Board and its Board Committees and between the Management and Independent Directors.

The Board conducts regularly scheduled meetings, with the schedule provided in advance to each Director prior to the commencement of each Financial Year. The Board meets at least four times a year at regular intervals. The Company's Constitution allows Board meetings to be conducted by way of a tele-conference or any other electronic means of communication.

# CODE OF CORPORATE GOVERNANCE

The number of Board and Committee meetings held during the year and the attendance of each Board member at those meetings are as follows:

| Meetings of: | Board | Audit Committee | Nominating Committee | Remuneration Committee |
|---|---|---|---|---|
| **No. of Meetings held in 2015** | 5 | 4 | 1 | 2 |
| Name & Attendance of Director | | | | |
| Roger Chia Kim Piow | 5 | – | 1 | – |
| Chia Kim Chua | 5 | – | – | – |
| Jenny Wong Oi Moi | 5 | – | – | – |
| Badri Narayanan Santhana Krishnan | 5 | 4 | – | 2 |
| Lam Khin Khui | 5 | 4 | 1 | 2 |
| Keith Tay Ah Kee | 5 | 4 | 1 | 2 |

## CHAIRMAN AND MANAGING DIRECTOR

### Principle 3

Mr. Roger Chia Kim Piow, who is both Chairman and Managing Director of the Company, leads the Board. This practice has been carried on since inception and he leads the Board meetings because of his in-depth knowledge of the Group's operations as well as his excellent relationship with customers, suppliers and other external parties that carry on business with the Group. As the Managing Director of the Company, he assumes the role of a chief executive officer who is principally responsible for the management and conduct of the business of the Group.

All major proposals and important operational decisions by management are discussed and reviewed by the Board under the chairmanship of Mr. Chia. His performance and remuneration package are reviewed periodically by the Audit, Nominating and Remuneration Committees. The majority of these Committee members are Independent Directors of the Company, hence, the Board believes that there are adequate safeguards against an uneven concentration of power and authority in a single individual.

The Board members unanimously support Mr. Chia's role as both Chairman and Managing Director. The Board is of the view that the current arrangement works well; in particular it does not slow down and hinder the decision-making process of the Company unnecessarily.

Guideline 3.3 of the Code of Corporate Governance recommends that a lead Independent Director should be appointed where the Chairman and CEO is the same person. The Nominating Committee does not consider it necessary to appoint a lead Independent Director as it is of the opinion that the role of Mr Chia as Chairman and CEO of the Company does not affect the independence of the Board. The Shareholder may also approach any Director for assistance if they have any concerns.

# CODE OF CORPORATE GOVERNANCE

## NOMINATING COMMITTEE

**PRINCIPLE 5**

The Nominating Committee ("NC") comprises Mr. Lam Khin Khui as Chairman of the NC, Mr. Keith Tay Ah Kee, and Mr. Roger Chia Kim Piow.

Both Mr. Lam and Mr. Tay are Independent Directors.

The terms of reference for NC are in line with the recommendation of the Code.

The NC recommends to the Board any new Board appointments and nominates Directors for re-election, determining whether or not such nominee has the requisite qualifications and experience. Accordingly, in selecting and recommending potential new directors, the NC will seek to identify the competencies required to enable the Board to fulfill its responsibilities. In doing so, the NC will have to regard the results of the annual appraisal of the Board's performance. The NC may engage consultants to search or assess candidates for new positions on the Board, or to engage such other independent experts as it considers necessary to carry out its duties and responsibilities. In considering the appointment of any new director, the NC ensures that the new director possesses the necessary skills, knowledge and experience that could facilitate the Board in the making of sound and well considered decisions.

In reviewing the nomination of the retiring directors, the NC considered the performance and contribution of each of the retiring directors, having regard not only to their attendance and participation at Board and Board Committee meetings but also the time and effort devoted to the Group's business and affairs, especially the operational and technical contributions.

Further, it sets objective performance criteria and the measurement processes to evaluate the performance of the Board once a year. A Board performance evaluation was carried out to assess and evaluate amongst other thing, the Board's composition, size and expertise, timeliness of Board information, accountability and processes, internal control & risk management, and Board's standards of conduct.

Following the review, the Board is of the view that the Board and its board committees operate effectively.

# CODE OF CORPORATE GOVERNANCE

The NC also determines the independence of Board members. It reviews at least annually, whether an existing or new director is considered independent bearing in mind the Code's definition of independence. Mr. Lam and Mr. Tay have both served on the Board for more than nine years. The NC has conducted a rigorous review of their independence and contributions to the Board to determine if they still remain independent and carry out their duties objectively. The review included but was not limited to the completion of a questionnaire of their independence on (i) whether he continues to express his views objectively and seek clarification and amplification when deemed necessary, (ii) whether he continues to debate issues objectively, (iii) whether he continues to scrutinize and challenge Management on important issues raised at meetings and (iv) whether he is able to bring judgement to bear in the discharge of his duties as a Board member and committee member. The questionnaire was completed by each Director (other than the Director concerned). The Board concurred with the Nominating Committee's view that they are independent in character and judgement and there were no circumstances which would likely affect or appear to affect their judgement. The Board acknowledges their combined strength of characters, objectivity and wealth of useful and relevant experience which when brought together enables them to continue effectively as Independent Directors. The Board also acknowledges and recognizes the benefits of the experience and stability brought by these long-serving Independent Directors.

In the determination of Mr. Lam's and Mr. Tay's independence, both of them have excused themselves respectively when it comes to the deliberation and determination of their own independence.

No maximum number of listed company board representations was fixed as the NC has guidelines addressing competing time commitments faced when Directors serve on multiple listed company boards or have other principal commitments. Each Director is required to disclose to the NC his board representation. The NC has reviewed and is satisfied that the directors have been able to devote sufficient time and attention to the affairs of the Company to adequately discharge his duties as director of the Company.

# CODE OF CORPORATE GOVERNANCE

Information on Directors' age, position, date of initial appointment, date of last re-election/re-appointment and directorships/chairmanships held by the Company's Directors in other listed companies are listed below.

| Director[1] | Age | Position | Date of Initial Appointment | Date of Last Re-election/ Re-appointment | Directorships in other listed companies | |
|---|---|---|---|---|---|---|
| | | | | | Current | Past 3 Years |
| Roger Chia Kim Piow | 67 | Executive Chairman & Managing Director | 02-Dec-1980 | N.A. | – | – |
| Chia Kim Chua | 65 | Executive Director | 01-Mar-1982 | 17-Apr-2015 | – | – |
| Jenny Wong Oi Moi | 61 | Non-Executive Director | 04-May-1983 | 17-Apr-2015 | – | – |
| Badri Narayanan Santhana Krishnan | 36 | Non-Executive Director | 22-Sep-2008 | 25-Apr-2014 | – | – |
| Lam Khin Khui | 67 | Independent Director | 01-Feb-1993 | 19-Apr-2013 | – | – |
| Keith Tay Ah Kee | 71 | Independent Director | 01-Feb-1993 | 17-Apr-2015 | F J Benjamin Holdings Ltd<br>Singapore Post Limited<br>YTL Starhill Global REIT Management Limited<br>AMVIG Holdings Limited (listed on The Stock Exchange of Hong Kong Limited) | SATS Ltd.<br>Singapore Reinsurance Corporation Limited |

(1) The principal commitment of the Directors, if any, is set out in the "Board of Directors" section in this Annual Report

Pursuant to Article 107 of the Company's Constitution, every director shall retire from office once every three years, and for this purpose, one-third of the Board are to retire from office by rotation and be subjected to re-election at the Company's AGM. The Managing Director of the Company is not subject to retirement pursuant to the Company's Constitution.

The Directors who are retiring at the forthcoming AGM pursuant to the Company's Constitution are as follows:

Mr Badri Narayanan Santhana Krishnan (Article 107)
Mr Lam Khin Khui (Article 107)
*Mr Keith Tay Ah Kee (Article 109)

* Mr. Keith Tay was previously re-appointed to hold office until this Annual General Meeting pursuant to Section 153(6) of the Companies Act (Cap 50), which was in force immediately before 3 January 2016

# CODE OF CORPORATE GOVERNANCE

The NC has recommended the re-election of Mr. Badri Narayanan Santhana Krishnan, Mr Lam Khin Khui and Mr Keith Tay Ah Kee at the forthcoming AGM.

## REMUNERATION COMMITTEE

### Principles 7, 8 and 9

The Remuneration Committee ("RC") members are Mr. Lam Khin Khui as Chairman, Mr. Keith Tay Ah Kee and Mr. Badri Narayanan Santhana Krishnan. Both Mr. Lam and Mr. Tay are Independent Directors, while Mr. Badri Narayanan is a Non-Executive Director. The RC, when required, has access to expert advice, both within and outside the Company.

The terms of reference for RC are in line with the recommendations of the Code.

The role of the RC is to review and recommend to the Board a framework of remuneration for Directors and key management personnel (MDs and EDs of major subsidiaries) of the Group. It determines specific remuneration packages for each Executive Director and reviews the terms of their service contracts. In line with the above, it considers and approves guidelines on salary, bonus, and other terms and conditions for members of key management personnel.

In setting remuneration packages for Directors and key management personnel of the Group, the pay and employment conditions within the industry and in comparable companies are taken into consideration. The RC seeks to establish and maintain an appropriate and competitive level of remuneration to attract, retain and motivate key executives. The RC also ensures that the remuneration policies support the Company's objectives and strategies.

The Executive Directors have service contracts and do not receive director's fees. Their compensation consists of salary, normal bonuses, and performance bonuses. The performance bonuses form a significant portion of their compensation and are dependent on the profitability of the Group. This is to align their interests with those of the shareholders and link rewards to corporate and individual performance.

Executive Directors' service contracts are subject to review every two years. The RC is of the view that the Directors' service contracts are not excessively long or with onerous removal clauses. The Company does not have any contractual provisions which allows it to reclaim incentive components of remuneration from Executive Directors and/or key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company as such provisions may have a negative impact on attracting and retaining talent in the Company.

# CODE OF CORPORATE GOVERNANCE

The Independent and Non-Executive Directors are compensated through directors' fees. Directors' fees comprise a basic retainer fee and fees in respect of service on Board Committees. These fees are subject to shareholders' approval at the AGM.

The Directors' interests are set out in the Directors' Report.

The Directors' annual fees, subject to approval at the coming Annual General Meeting, and remuneration are set out below. The remuneration of Executive Directors relates to actual payments made during the year and accordingly includes bonus paid during the year in respect of previous year Group's performance.

| Directors of Company | Fes $'000 | Salary % | Bonus % | Other Benefits % | Total % | Total $'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Roger Chia Kim Piow | – | 11 | 88 | 1 | 100 | 6,640 |
| Chia Kim Chua | – | 24 | 75 | 1 | 100 | 1,506 |
| **Non-Executive Directors** | – | | | | | |
| Badri Narayanan Santhana Krishnan | 82 | – | – | – | – | 82 |
| Jenny Wong Oi Moi | 70 | – | – | – | – | 70 |
| **Independent Directors** | | | | | | |
| Keith Tay Ah Kee | 118 | – | – | – | – | 118 |
| Lam Khin Khui | 100 | – | – | – | – | 100 |

The annual remuneration of the top 5 key management personnel is set out below (in percentage terms) and relates to actual payments made during the year and accordingly includes bonus paid during the year in respect of previous year's performance.

| Key Management Personnel | Salary % | Bonus % | Other Benefits % | Total % |
|---|---|---|---|---|
| **$1,500,000 to below $1,750,000** | | | | |
| Tham Sow Chee, Kellin | 16 | 83 | 1 | 100 |
| **$250,000 to below $500,000** | | | | |
| Leong Sook Han | 96 | 0 | 4 | 100 |
| Koh Chun Peng | 61 | 33 | 6 | 100 |
| Ramu Baskar | 59 | 39 | 2 | 100 |
| James Robert Prakash | 54 | 42 | 4 | 100 |

# CODE OF CORPORATE GOVERNANCE

The total remuneration paid to the top five key management personnel (who are not Directors or the CEO) is S$2,929,000.

The remuneration of employee who is an immediate family member of a Director or the CEO of the Company, and whose remuneration exceeded $50,000 during the year is as follows:

| Name | Relationship with Director or the CEO |
|---|---|
| **$250,000 to below $300,000** | |
| Chia Kim Hung<br>(Country Director of the Company in Saudi Arabia) | • Brother of Mr. Roger Chia Kim Plow (Chairman & Managing Director and substantial shareholder) and Mr. Chia Kim Chua (Executive Director)<br>• Brother-in-law of Ms. Jenny Wong Oi Moi (Non-Executive Director and substantial shareholder) |

## ACCOUNTABILITY

### Principle 10

The Board is accountable to the shareholders while management is accountable to the Board. Management presents quarterly and full-year financial statements to the AC and the Board for review and approval. The Board approves the results and authorizes the release of the results to SGX-ST and the public via SGXNET.

## AUDIT COMMITTEE

### Principle 12

The terms of reference for AC are in line with the recommendations of the Code.

The Audit Committee ("AC") comprises Mr. Keith Tay Ah Kee as Chairman, Mr. Lam Khin Khui, and Mr. Badri Narayanan Santhana Krishnan. The Chairman is a qualified accountant while Mr. Badri Narayanan is a qualified financial analyst. Both Mr. Tay and Mr. Lam are Independent Directors while Mr. Badri is a Non-Executive Director.

The AC reviews the scope of work, as set out in section 201B(5) of the Companies Act, Cap 50, of both internal and external auditors and the assistance given by the Company's officers to the auditors. It meets with the Company's internal and external auditors to review their audit plans and discussed the results of their respective examinations and their evaluation of the Group's operations and system of internal controls. The AC also reviews significant financial reporting issues and judgements relating to the financial statements of the Group for each financial year as well as the auditor's report thereon, and the quarterly and annual results announcements, before submitting to the Board for approval. With the assistance of the auditors, the AC reviews the interested person transactions for the Group.

# CODE OF CORPORATE GOVERNANCE

The AC reviews the work done by internal and external auditors relating to adequacy and effectiveness of the Company's internal controls (financial, operational, information technology, and compliance) and risk management policies and systems established by management.

The Company has in place a Whistle Blowing Policy ("the Policy") for the Group, which provides a channel to employees and other parties to report in confidence, without fear of reprisals, concerns about possible improprieties in financial reporting or other matters. The Policy was to assist the AC in managing allegations of fraud or other misconduct which may be made, so that investigations are carried out in an appropriate and timely manner; administrative, disciplinary and civil actions that are initiated following the completion of the investigations, are appropriate and fair; and actions are taken to correct the weakness in the existing system of internal processes which allowed the perpetration of the fraud and/or misconduct and to prevent recurrence.

Apart from formal meetings, the Chairman and various members of the AC will hold informal meetings and discussions with the Management as and when necessary. Members of the AC have independent access to both external and internal auditors. The AC met with both internal and external auditors without the presence of management.

The AC has reviewed the nature and extent of non-audit services to the Group by the external auditors and is satisfied that the nature and extent of such services would not affect the independence and objectivity of the external auditors.

The AC recommends to the Board the appointment, re-appointment and removal of external auditors and approves the remuneration and terms of engagement of the external auditors for shareholders' approval at the forthcoming AGM.

The AC has taken measures to keep abreast of the changes to accounting standards and issues which have a direct impact on the financial statements.

The Group has considered the experience and suitability of the external auditors. Accordingly, it has complied with Rules 712 and Rule 715 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited ("SGX-ST") in relation to its external auditors.

## RISK MANAGEMENT AND INTERNAL CONTROLS

### Principle 11

The Board undertakes the responsibility to ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets. The Board determines the extent of risk tolerance in accordance with the Group's strategic objectives and oversees Management in the design, implementation and monitoring of its risk management and internal control systems.

# CODE OF CORPORATE GOVERNANCE

To assist the Board in carrying out its responsibility, Management has established a Management Risk Committee ("MRC"). The MRC is chaired by Mr. Chia Kim Chua, Executive Director and comprises the Chief Financial Officer ("CFO") and key management from business units and functional departments.

The MRC's objectives include the following:
- Oversee and advise the Board on the Group's risk exposure, risk appetite and risk strategy;
- Review and guide Management in formulating the Group's risk policies and in the execution of risk management processes and procedures; and
- Review the effectiveness of the Group's risk management systems.

Using a comfort matrix of key risks, the material financial, operational, information technology and compliance risks of the Group have been documented and assessed against strategies, processes, systems and controls in place. A process of continual monitoring and managing these key risks is in place.

The Group has in place a system of internal controls to ensure that assets are safeguarded; proper accounting records are maintained and financial information used within the business and for publication is reliable. The controls include the documentation of key procedures and rules relating to the delegation of authorities. The AC, assisted by the auditors, has reviewed the effectiveness of these controls and the Board has deemed them to be adequate within the Group's guidelines.

During the year, the AC discussed the findings of the external auditors and internal auditors arising from their respective reviews of the system of internal controls that address critical and significant financial, operational, information technology and compliance risks. No significant weaknesses were noted.

The Board has also received assurance from the Managing Director and CFO that as at 31 December 2015:

(a) the financial records of the Group have been properly maintained and the financial statements for the year ended 31 December 2015 give a true and fair view of the Group's operations and finances; and

(b) the systems of internal controls and risk management in place were adequate and effective as at 31 December 2015, to address financial, operational, information technology and compliance risks of which considered relevant and material to its operations.

Based on the internal control and risk management systems established and maintained by the Group, work performed by external and internal auditors and periodic reviews (by Management, the Board and various Board Committees), the Board with the concurrence of the AC, is of the opinion that the Group's internal control and risk management systems were adequate and effective as at 31 December 2015 to address financial, operational, information technology, and compliance risks, which the Group considers relevant and material to its operations.

# CODE OF CORPORATE GOVERNANCE

The Board notes that the systems of internal controls and risk management provide reasonable but not absolute assurance that the Group will not be affected by events that could be reasonably foreseen in the course of its business. The Board also notes that no system can provide absolute assurance against the occurrence of material errors, poor judgement, fraud or other irregularities.

**INTERNAL AUDIT**

Principles 13

The internal audit function is performed in-house supplemented by outsourcing of certain specialist functions. The AC reviews its adequacy and effectiveness each year. The AC has reviewed the internal audit function and is satisfied that it has the appropriate standing and resources to perform its functions effectively and objectively. The internal auditor reports primarily to the AC. The AC approves the hiring, removal, evaluation and compensation of the internal auditor.

The AC is of the opinion that the internal audit functions of the Company and its subsidiaries are currently effective and adequate.

SHAREHOLDERS RIGHTS AND RESPONSIBILITIES

Principles 14, 15 and 16

All shareholders are treated fairly and equally to protect and facilitate the exercise of their ownership rights. Any notice of a general meeting is issued at least 14 days before the meeting. The Company also allows shareholders to appoint proxies in his absence to attend and vote on his behalf at general meetings.

The Company does not practice selective disclosure. All price sensitive information is promptly disseminated via SGXNET to all shareholders and is available to the public in general. Similarly, quarterly, full year results and annual reports announced or issued within the mandatory period are also released through the SGXNET and the Company's website www.rotaryeng.com.sg.

All shareholders of the Group receive the Annual Report and notice of AGM. The Annual General Meeting is the principal forum for dialogue with shareholders. At each AGM, shareholders were invited to participate in the question-and-answer session. Under the Company's Articles of Association, a registered shareholder may appoint up to two proxies to attend AGMs to speak and vote in place of that shareholder. Shareholders whose shares are held through nominees are allowed to observe these AGMs. The Company Secretary records minutes of every AGM and the minutes will be made available to the shareholders upon their request.

All Directors including all chairpersons of the Audit, Nomination and Remuneration Committees are encouraged to be present at all general meetings of the Company. The external auditors are present at the AGMs.

# CODE OF CORPORATE GOVERNANCE

Other than communicating with Shareholders at AGMs, the Company has engaged an external Investor Relations firm, Waterbrooks Consultants Pte Ltd, to assist with its investor relations matters. Media, analysts, investors and shareholders may also contact the representatives of Waterbrooks Consultants Pte Ltd and the CFO on any investor relations matters; their contact details are set out in the Company's media released to the SGX-ST.

Subject to the approval of the Shareholders at the forthcoming AGM, the Company has proposed the payment of a final one-tier tax exempt dividend of Singapore 1.5 cents per ordinary share for the financial year ended 31 December 2015.

## SECURITIES TRANSACTIONS

The Company has a clear policy on the trading of its securities by directors, officers and employees within the Group. The Company has adopted its own internal Code of Best Practices on Securities Transactions ("the Securities Transactions Code"). The Securities Transactions Code provides guidance to the directors, officers and employees of the Group with regard to dealing in the Company's securities. It emphasizes that the law on insider trading is applicable at all times, notwithstanding the window periods for dealing in the securities. The Securities Transactions Code also enables the Company to monitor such securities transactions by requiring all directors and employees to report to the Company whenever they deal in the Company's securities.

The Group issues reminders to its directors, officers and employees informing them that they must not trade in the listed securities of the Company one month before the announcement of the Group's full year or two weeks before quarterly results and ending on the date of the announcement of such results. In addition, directors are required to notify the Company of any dealings in the Company's securities (outside the applicable closed window period mentioned above) within two (2) business days of the transactions.

Directors and key officers are also encouraged not to deal in the Company's securities on short-term considerations.

## MATERIAL CONTRACTS

Since the end of the previous financial year, the Company and its subsidiaries did not enter into any material contracts involving the interests of Directors or controlling shareholders, and no such material contracts subsisted at end of the financial year or were entered into since the end of the financial year.

## INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are carried out at arm's length and under normal commercial terms. There were no reportable interested person transactions for the financial year ended 31 December 2015.

# DIRECTORS' STATEMENT

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of Rotary Engineering Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2015.

**OPINION OF THE DIRECTORS**

In the opinion of the directors,

(a) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company 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 2015 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

**DIRECTORS**

The directors of the Company in office at the date of this statement are:

Roger Chia Kim Piow (Chairman and Managing Director)
Chia Kim Chua
Keith Tay Ah Kee
Lam Khin Khui
Badri Narayanan Santhana Krishnan
Jenny Wong Oi Moi

**ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES**

Except as described below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

# DIRECTORS' STATEMENT

## DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings, required to be kept under section 164 of the Singapore Companies Act, Chapter 50, an interest in shares of the Company as stated below:

| | Direct interest | | Deemed interest | |
|---|---|---|---|---|
| | At the beginning of financial year | At the end of financial year | At the beginning of financial year | At the end of financial year |
| **Rotary Engineering Limited** | | | | |
| Ordinary shares | | | | |
| Roger Chia Kim Piow | 26,836,816 | 28,085,916 | 172,423,528 | 172,423,528 |
| Chia Kim Chua | 22,242,400 | 22,242,400 | – | – |
| Jenny Wong Oi Moi | 6,972,896 | 6,972,896 | 192,287,448 | 193,536,548 |
| Lam Khin Khui | 842,800 | 842,800 | – | – |
| Keith Tay Ah Kee | 459,200 | 459,200 | – | – |

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2016.

By virtue of Section 7 of the Singapore Companies Act, Chapter 50, Roger Chia Kim Piow and Jenny Wong Oi Moi are deemed to have interests in shares of the subsidiaries of the Company.

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

## DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

# DIRECTORS' STATEMENT

## SHARE OPTIONS

During the financial year, there were:

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

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

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

## AUDIT COMMITTEE

The Audit Committee ("AC") carried out its functions in accordance with section 201B(5) of the Singapore Companies Act, Chapter 50, including the following:

- Reviewed the audit plans of the internal and external auditors of the Group and Company, and reviewed the internal auditor's evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Group and Company's officers to the external and internal auditors;
- Reviewed the quarterly and annual financial statements and the auditor's report on the annual financial statements of the Group and Company before their submission to the board of directors;
- Reviewed effectiveness of the Group and Company's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditor;
- Met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;
- Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
- Reviewed the cost effectiveness and the independence and objectivity of the external auditor;
- Reviewed the nature and extent of non-audit services provided by the external auditor;
- Recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit;
- Reported actions and minutes of the AC to the board of directors with such recommendations as the AC considers appropriate; and
- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual.

# DIRECTORS' STATEMENT

**AUDIT COMMITTEE (CONT'D)**

The AC, having reviewed all non-audit services provided by the external auditor to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditor. The AC has also conducted a review of interested person transactions.

The AC convened four meetings during the year with full attendance from all members. The AC has also met with internal and external auditor, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Report on Corporate Governance.

**AUDITORS**

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor.

On behalf of the board of directors:

**Roger Chia Kim Piow**
Director

**Chia Kim Chua**
Director

Singapore
24 March 2016

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ROTARY ENGINEERING LIMITED

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Rotary Engineering Limited (the "Company") and its subsidiaries (collectively, the "Group"), set out on pages 60 to 153 which comprise the balance sheets of the Group and the Company as at 31 December 2015, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

***Management's responsibility 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 Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, 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.

***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ROTARY ENGINEERING LIMITED

***Opinion***

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and of the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

**Ernst & Young LLP**
Public Accountants and
Chartered Accountants
Singapore
24 March 2016

# CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | Note | Group 2015 $'000 | Group 2014 $'000 |
|---|---|---|---|
| **Revenue** | 5 | **329,274** | 687,658 |
| Cost of sales | | **(249,521)** | (570,434) |
| **Gross profit** | | **79,753** | 117,224 |
| **Other items of income** | | | |
| Other income | | **14,589** | 2,128 |
| Finance income | | **4,234** | 605 |
| Foreign exchange differences | | **8,088** | 2,385 |
| **Other items of expense** | | | |
| Selling and marketing costs | | **(1,074)** | (844) |
| General and administrative costs | | **(46,676)** | (56,948) |
| Other operating costs | | **(9,966)** | (14,377) |
| Finance costs | | **(415)** | (1,068) |
| Share of results of associates | | **(583)** | (209) |
| **Profit before tax** | 6 | **47,950** | 48,896 |
| Income tax expense | 7 | **(2,886)** | (7,921) |
| **Profit for the year** | | **45,064** | 40,975 |
| **Profit/(loss) for the year attributable to:** | | | |
| Owners of the Company | | **42,779** | 50,084 |
| Non-controlling interests | | **2,285** | (9,109) |
| | | **45,064** | 40,975 |
| **Earnings per share attributable to owners of the Company (cents per share)** | | | |
| Basic | 8 | **7.5** | 8.8 |
| Diluted | 8 | **7.5** | 8.8 |

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | $'000 | $'000 |
| **Profit for the year** | **45,064** | 40,975 |
| **Other comprehensive income:** | | |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Net fair value loss on cash flow hedges | **–** | (67) |
| Foreign currency translation movement | **(4,887)** | (1,449) |
| **Other comprehensive income for the year, net of tax** | **(4,887)** | (1,516) |
| **Total comprehensive income for the year** | **40,177** | 39,459 |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | **46,928** | 53,757 |
| Non-controlling interests | **(6,751)** | (14,298) |
| | **40,177** | 39,459 |

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

# BALANCE SHEETS

AS AT 31 DECEMBER 2015

| | Note | Group 2015 $'000 | Group 2014 $'000 | Company 2015 $'000 | Company 2014 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 9 | **43,040** | 48,389 | **8,707** | 8,582 |
| Intangible assets | 10 | **840** | 1,199 | **607** | 851 |
| Investments | | | | | |
| Subsidiaries | 11 | **–** | – | **50,879** | 50,326 |
| Associates | 12 | **14,218** | 8,593 | **12,527** | 5,963 |
| Others | 13 | **31,071** | 26,484 | **895** | 895 |
| Deferred tax assets | 14 | **1,022** | 1,052 | **–** | – |
| Other receivables | 15 | **–** | 6,785 | **–** | 6,785 |
| Prepaid loan appraisal fees | 20 | **96** | 311 | **–** | – |
| **Current assets** | | | | | |
| Gross amount due from customers for contract work-in-progress | 16 | **23,784** | 13,248 | **5,209** | 8,390 |
| Inventories | 17 | **5,647** | 3,808 | **495** | 568 |
| Prepaid operating expenses | | **508** | 249 | **195** | 9 |
| Downpayments made to suppliers | | **2,028** | 5,703 | **1,102** | 2,958 |
| Trade and other receivables | 15 | **109,367** | 185,504 | **214,658** | 260,454 |
| Foreign currency contracts | 18 | **–** | 238 | **–** | 238 |
| Cash and short-term deposits | 19 | **118,215** | 157,057 | **60,062** | 57,205 |
| | | **259,549** | 365,807 | **281,721** | 329,822 |
| **Current liabilities** | | | | | |
| Income tax payable | | **9,705** | 15,829 | **3,974** | 5,113 |
| Loans and borrowings | 20 | **2,804** | 2,269 | **50** | – |
| Gross amount due to customers for contract work-in-progress | 16 | **72,255** | 137,577 | **53,618** | 70,400 |
| Trade and other payables | 21 | **93,487** | 143,526 | **107,870** | 161,840 |
| Downpayments from customers | | **9,393** | 18,727 | **1,449** | 11,175 |
| Foreign currency contracts | 18 | **339** | 1,398 | **339** | 1,398 |
| | | **187,983** | 319,326 | **167,300** | 249,926 |
| **Net current assets** | | **71,566** | 46,481 | **114,421** | 79,896 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 14 | **2,020** | 2,150 | **1,255** | 1,314 |
| Loans and borrowings | 20 | **6,752** | 8,772 | **93** | – |
| | | **8,772** | 10,922 | **1,348** | 1,314 |
| **Net assets** | | **153,081** | 128,372 | **186,688** | 151,984 |

# BALANCE SHEETS

AS AT 31 DECEMBER 2015

| | Note | Group 2015 $'000 | Group 2014 $'000 | Company 2015 $'000 | Company 2014 $'000 |
|---|---|---|---|---|---|
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | 22(a) | **89,365** | 89,365 | **89,365** | 89,365 |
| Treasury shares | 22(b) | **(161)** | (161) | **(161)** | (161) |
| Retained earnings | | **194,329** | 165,738 | **97,484** | 62,780 |
| Other reserves | 23 | **5,616** | 1,467 | **–** | – |
| | | **289,149** | 256,409 | **186,688** | 151,984 |
| **Non-controlling interests** | | **(136,068)** | (128,037) | **–** | – |
| **Total equity** | | **153,081** | 128,372 | **186,688** | 151,984 |

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

# STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| **Group 2015** | **Share capital** | **Treasury shares** | **Retained earnings** | **Capital reserve** | **Statutory reserve** | **Foreign currency translation reserve** | **Total** | **Non–controlling interests** | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| At 1 January 2015 | **89,365** | **(161)** | **165,738** | **547** | **300** | **620** | **256,409** | **(128,037)** | **128,372** |
| Profit for the year | – | – | **42,779** | – | – | – | **42,779** | **2,285** | **45,064** |
| Other comprehensive income for the year | – | – | – | – | – | **4,149** | **4,149** | **(9,036)** | **(4,887)** |
| Total comprehensive income for the year | – | – | **42,779** | – | – | **4,149** | **46,928** | **(6,751)** | **40,177** |
| <u>Contributions by and distributions to owners</u> | | | | | | | | | |
| Dividends on ordinary shares (Note 30) | – | – | **(14,188)** | – | – | – | **(14,188)** | – | **(14,188)** |
| Dividends paid by subsidiaries to non-controlling interests | – | – | – | – | – | – | – | **(1,280)** | **(1,280)** |
| Total contributions by and distributions to owners | – | – | **(14,188)** | – | – | – | **(14,188)** | **(1,280)** | **(15,468)** |
| At 31 December 2015 | **89,365** | **(161)** | **194,329** | **547** | **300** | **4,769** | **289,149** | **(136,068)** | **153,081** |

# STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| Group 2014 | Share capital $'000 | Treasury shares $'000 | Retained earnings $'000 | Capital reserve $'000 | Statutory reserve $'000 | Foreign currency translation reserve $'000 | Hedging reserve $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 89,365 | (161) | 124,167 | 560 | 300 | (3,120) | 67 | 211,178 | (112,804) | 98,374 |
| Profit for the year | – | – | 50,084 | – | – | – | – | 50,084 | (9,109) | 40,975 |
| Other comprehensive income for the year | – | – | – | – | – | 3,740 | (67) | 3,673 | (5,189) | (1,516) |
| Total comprehensive income for the year | – | – | 50,084 | – | – | 3,740 | (67) | 53,757 | (14,298) | 39,459 |
| Contributions by and distributions to owners | | | | | | | | | | |
| Dividends on ordinary shares (Note 30) | – | – | (8,513) | – | – | – | – | (8,513) | – | (8,513) |
| Dividends paid by subsidiaries to non-controlling interests | – | – | – | – | – | – | – | – | (920) | (920) |
| Total contributions by and distributions to owners | – | – | (8,513) | – | – | – | – | (8,513) | (920) | (9,433) |
| Changes in ownership interests in subsidiaries | | | | | | | | | | |
| Return of capital to non-controlling interests | – | – | – | (13) | – | – | – | (13) | (15) | (28) |
| At 31 December 2014 | 89,365 | (161) | 165,738 | 547 | 300 | 620 | – | 256,409 | (128,037) | 128,372 |

# STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| Company | Share capital $'000 | Treasury shares $'000 | Retained earnings $'000 | Hedging reserve $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **2015** | | | | | |
| At 1 January 2015 | **89,365** | **(161)** | **62,780** | **–** | **151,984** |
| Profit for the year, representing total comprehensive income for the year | **–** | **–** | **48,892** | **–** | **48,892** |
| <u>Contributions by and distributions to owners</u> | | | | | |
| Dividends on ordinary shares (Note 30) | **–** | **–** | **(14,188)** | **–** | **(14,188)** |
| Total transactions with owners in their capacity as owners | **–** | **–** | **(14,188)** | **–** | **(14,188)** |
| At 31 December 2015 | **89,365** | **(161)** | **97,484** | **–** | **186,688** |
| **2014** | | | | | |
| At 1 January 2014 | 89,365 | (161) | 23,905 | 67 | 113,176 |
| Profit for the year | – | – | 47,388 | – | 47,388 |
| Other comprehensive income for the year | – | – | – | (67) | (67) |
| Total comprehensive income for the year | – | – | 47,388 | (67) | 47,321 |
| <u>Contributions by and distributions to owners</u> | | | | | |
| Dividends on ordinary shares (Note 30) | – | – | (8,513) | – | (8,513) |
| Total transactions with owners in their capacity as owners | – | – | (8,513) | – | (8,513) |
| At 31 December 2014 | 89,365 | (161) | 62,780 | – | 151,984 |

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | Note | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | **47,950** | 48,896 |
| Adjustments for: | | | |
| Amortisation of intangible assets | 10 | **594** | 1,415 |
| Amortisation of prepaid loan appraisal fees | | **245** | 225 |
| Bad debts written off | 15 | **–** | 42 |
| Depreciation of property, plant and equipment | 9 | **9,288** | 11,398 |
| Fair value (gain)/loss on foreign currency contracts, net | | **(821)** | 782 |
| Finance income | | **(4,234)** | (605) |
| (Gain)/Loss on disposal of property, plant and equipment | | **(270)** | 521 |
| Gain on disposal of other investment | | **(3,000)** | – |
| Gain on partial disposal of interest in associate | | **(76)** | – |
| Impairment of plant and equipment | 9 | **29** | – |
| Interest expense | | **170** | 843 |
| Inventories written down | 17 | **65** | 49 |
| (Write back of)/allowance for doubtful debts | 15 | **(6)** | 552 |
| Write back of impairment of an associate | | **(6,816)** | – |
| Write back of inventories previously written down | | **(4)** | – |
| Share of results of associates | | **583** | 209 |
| **Operating cash flows before changes in working capital** | | **43,697** | 64,327 |
| *(Increase)/Decrease in:* | | | |
| Prepaid operating expenses, downpayments made to suppliers and trade and other receivables | | **94,638** | (32,749) |
| Inventories | | **(1,855)** | (549) |
| *Increase/(Decrease) in:* | | | |
| Trade and other payables and downpayments from customers | | **(80,707)** | (52,053) |
| Gross amount due to customers for contract work-in-progress, net | | **(77,643)** | 71,788 |
| **Cash flows from operations** | | **(21,870)** | 50,764 |
| Interest received | | **368** | 621 |
| Interest paid | | **(170)** | (843) |
| Income tax paid | | **(9,170)** | (7,859) |
| **Net cash flows (used in)/from operating activities** | | **(30,842)** | 42,683 |

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | Note | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Additions to intangible assets | 10 | **(237)** | (551) |
| Dividends from associates | | **943** | – |
| Proceeds from disposal of associates | 12 | **411** | 3,200 |
| Proceeds from disposal of other investments | 13 | **3,000** | – |
| Proceeds from disposal of property, plant and equipment | | **331** | 764 |
| Net cash inflow from disposal of subsidiary | | **–** | 3,883 |
| Purchase of investment securities | 13 | **–** | (23,185) |
| Purchase of property, plant and equipment | 9 | **(3,213)** | (6,405) |
| Repayment of loan from associate | 15 | **7,040** | – |
| Return of capital to non-controlling interests | | **–** | (28) |
| **Net cash flows from/(used in) investing activities** | | **8,275** | (22,322) |
| **Financing activities** | | | |
| Decrease in pledged fixed deposits | | **–** | 39,672 |
| Dividends paid: | | | |
| – by the Company | 30 | **(14,188)** | (8,513) |
| – by subsidiaries to non-controlling interests | | **(1,280)** | (920) |
| Repayment of bank loans and trade facilities, net | | **(2,389)** | (50,769) |
| Repayment of finance lease obligations | | **(3)** | (112) |
| **Net cash flows used in financing activities** | | **(17,860)** | (20,642) |
| **Net decrease in cash and cash equivalents** | | **(40,427)** | (281) |
| Effect of exchange rate changes on cash and cash equivalents | | **1,585** | 1,611 |
| **Cash and cash equivalents at 1 January** | | **157,057** | 155,727 |
| **Cash and cash equivalents at 31 December** | 19 | **118,215** | 157,057 |

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 1. CORPORATE INFORMATION

Rotary Engineering Limited (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange.

The registered office and principal place of business of the Company is located at No. 17, Tuas Avenue 20, Singapore 638828.

The principal activities of the Company are engineering design, procurement and construction services for plants and associated facilities. The principal activities of the subsidiaries are disclosed in Note 4 to the financial statements.

Related companies relate to the Rotary Engineering Limited group of companies.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 *Basis of preparation*

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

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

The financial statements are presented in Singapore Dollars (SGD or $) and all values in the tables are rounded to the nearest thousand ($'000) except when otherwise indicated.

### 2.2 *Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards that are applicable and effective for annual periods beginning on or after 1 January 2015. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.3 *Standards issued but not yet effective*

The Group has not adopted the following standards and interpretations that have been issued but are not yet effective:

| *Description* | *Effective for annual periods beginning on or after* |
|---|---|
| FRS 114 *Regulatory Deferral Accounts* | 1 January 2016 |
| Amendments to FRS 27 *Equity Method in Separate Financial Statements* | 1 January 2016 |
| Amendments to FRS 16 and FRS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* | 1 January 2016 |
| Improvements to FRSs (November 2015) | |
| (a) Amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* | 1 January 2016 |
| (b) Amendments to FRS 107 *Financial Instruments: Disclosures* | 1 January 2016 |
| (c) Amendment to FRS 19 *Employee Benefits* | 1 January 2016 |
| (d) Amendment to FRS 34 *Interim Financial Reporting* | 1 January 2016 |
| Amendments to FRS 110 and FRS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | To be determined |
| Amendments to FRS 1 *Disclosure Initiative* | 1 January 2016 |
| Amendments to FRS 110, FRS 112 and FRS 28 *Investment Entities: Applying the Consolidation Exception* | 1 January 2016 |
| Amendments to FRS 111 *Accounting for Acquisition of Interests in Joint Operations* | 1 January 2016 |
| FRS 115 *Revenue from Contracts with Customers* | 1 January 2018 |
| FRS 109 *Financial Instruments* | 1 January 2018 |

Except for FRS 109 and FRS 115, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 109 and FRS 115 is described below.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.3 *Standards issued but not yet effective (cont'd)*

FRS 115 *Revenue from Contracts with Customers*

FRS 115 establishes a five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in FRS 115 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied.

Key issues for the Group include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of FRS 115 and plans to adopt the new standard on the required effective date.

FRS 109 *Financial Instruments*

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model. Adopting the expected credit losses requirements will require the Group to make changes to its current systems and processes.

FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of FRS 109 and plans to adopt the standard on the required effective date.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.4 *Basis of consolidation and business combinations*

#### (a) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Group. Consistent accounting policies are applied to like transactions and events in similar circumstances. When the end of the reporting period of the Group is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the Group, unless it is impracticable to do so.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- de-recognises the carrying amount of any non-controlling interests;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.4 *Basis of consolidation and business combinations (cont'd)*

#### (b) *Business combinations and goodwill*

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another FRS.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.4 *Basis of consolidation and business combinations (cont'd)*

**(b)** *Business combinations and goodwill (cont'd)*

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

### 2.5 *Transactions with non-controlling interests*

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

### 2.6 *Foreign currency*

The financial statements are presented in Singapore Dollars, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

**(a)** *Transactions and balances*

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.6 *Foreign currency (cont'd)*

#### (b) *Consolidated financial statements*

For consolidation purpose, the assets and liabilities of foreign operations are translated into SGD at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operations are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of foreign operation.

### 2.7 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment other than freehold land and buildings are measured at cost less accumulated depreciation and any accumulated impairment losses.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Freehold land has an unlimited useful life and therefore is not depreciated.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.7 *Property, plant and equipment (cont'd)*

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Leasehold land and buildings | – over period of the lease of 20 to 99 years |
| Office renovations | – 5 to 10 years |
| Office equipment, furniture and fittings | – 3 to 10 years |
| Plant and machinery | – 5 to 10 years |
| Motor vehicles | – 5 years |
| Other assets | – 3 to 10 years |

Other assets comprise electrical equipment, containers, air conditioners and hand tools.

Assets under construction included in construction-in-progress are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in profit or loss in the year the asset is de-recognised.

### 2.8 *Intangible assets*

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.8 *Intangible assets (cont'd)*

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is de-recognised.

**Software**

Software acquired separately is amortised on a straight line basis over its finite useful life of 3 years.

### 2.9 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in profit or loss, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.9 *Impairment of non-financial assets (cont'd)*

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

### 2.10 *Subsidiaries*

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

### 2.11 *Joint ventures and associates*

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

The Group account for its investments in associates and joint ventures using the equity method from the date on which it becomes an associate or joint venture.

On acquisition of the investment, any excess of the cost of the investment over the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted as goodwill and is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.11 *Joint ventures and associates (cont'd)*

Under the equity method, the investment in associates or joint ventures are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates or joint ventures. The profit or loss reflects the share of results of the operations of the associates or joint ventures. Distributions received from joint ventures or associates reduce the carrying amount of the investment. Where there has been a change recognised in other comprehensive income by the associates or joint venture, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and associate or joint venture are eliminated to the extent of the interest in the associates or joint ventures.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in associate or joint ventures. The Group determines at the end of each reporting period whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in profit or loss.

The financial statements of the associates and joint ventures are prepared as the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

### 2.12 *Financial instruments*

(a) *Financial assets*

**Initial recognition and measurement**

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.12 *Financial instruments (cont'd)*

#### (a) *Financial assets (cont'd)*

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

(i) ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group. Derivatives, including separated embedded derivatives are also classified as held for trading.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(ii) ***Loans and receivables***

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired, and through the amortisation process.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.12 *Financial instruments (cont'd)*

(a) *Financial assets (cont'd)*

**Subsequent measurement (cont'd)**

(iii) ***Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are de-recognised or impaired, and through the amortisation process.

The Group has not designated any held-to-maturity investments.

(iv) ***Available-for-sale financial assets***

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.12 *Financial instruments (cont'd)*

(a) *Financial assets (cont'd)*

**De-recognition**

A financial asset is de-recognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

**Regular way purchase or sale of a financial asset**

All regular way purchases and sales of financial assets are recognised or de-recognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(b) *Financial liabilities*

**Initial recognition and measurement**

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.12 *Financial instruments (cont'd)*

#### (b) *Financial liabilities (cont'd)*

**Subsequent measurement**

The measurement of financial liabilities depends on their classification as follows:

(i) ***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

(ii) ***Financial liabilities at amortised cost***

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are de-recognised, and through the amortisation process.

**De-recognition**

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.12 *Financial instruments (cont'd)*

(c) *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheets, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### 2.13 *Impairment of financial assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

(a) *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.13 *Impairment of financial assets (cont'd)*

#### (a) *Financial assets carried at amortised cost (cont'd)*

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

#### (b) *Financial assets carried at cost*

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

#### (c) *Available-for-sale financial assets*

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.13 *Impairment of financial assets (cont'd)*

(c) *Available-for-sale financial assets (cont'd)*

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

### 2.14 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, and short-term deposits.

### 2.15 *Construction contracts*

The Group principally operates fixed price contracts. Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (the percentage of completion method), when the outcome of a construction contract can be estimated reliably.

The outcome of a construction contract can be estimated reliably when: (i) total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a construction contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable and contract costs are recognised as expense in the period in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.15 *Construction contracts (cont'd)*

An expected loss on the construction contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the stage of completion as determined by the measurement of work performed.

Contract revenue – Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue; and they can be reliably measured.

Contract costs – Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract.

### 2.16 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for using purchase costs on a weighted average cost formula.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

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

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.17 *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 an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 2.18 *Government grants*

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income are presented under "Other income".

### 2.19 *Employee benefits*

#### (a) *Defined contribution plans*

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

#### (b) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled before twelve months after the end of reporting period is recognised for services rendered by employees up to the end of the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.20 *Leases*

#### (a) *As lessee*

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### (b) *As lessor*

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### 2.21 *Revenue*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognised:

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.21 *Revenue (cont'd)*

(a) *Sale of goods*

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) *Rendering of services*

Revenue from construction contracts is recognised by reference to the stage of completion at the end of the reporting period. Stage of completion is determined by reference to the professional judgement of project engineers on amount of work performed. Where the contract outcome cannot be measured reliably, revenue is recognised to the extent of the expenses recognised that are recoverable.

Revenue from other services provided to customers is recognised in the period in which the service is provided.

### 2.22 *Taxes*

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.22 *Taxes (cont'd)*

#### (b) *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

– Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

– Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.22 *Taxes (cont'd)*

#### (b) *Deferred tax (cont'd)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.22 *Taxes (cont'd)*

(c) *Sales tax*

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

### 2.23 *Segment reporting*

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 29, including the factors used to identify the reportable segments and the measurement basis of segment information.

### 2.24 *Treasury shares*

The Group's own equity instruments, which are re-acquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount of treasury shares and the consideration received, if reissued, is recognised directly in equity. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.25 *Contingencies*

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

### 2.26 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

(i) Has control or joint control over the Company;

(ii) Has significant influence over the Company; or

(iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.26 *Related parties (cont'd)*

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

### 3.1 *Judgements made in applying accounting policies*

*Income taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax provisions already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amounts of the Group's deferred tax assets and deferred tax liabilities as at 31 December 2015 is disclosed in Note 14 to the financial statements.

### 3.2 *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 are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

### 3.2 *Key sources of estimation uncertainty (cont'd)*

#### (a) *Impairment of loans and receivables*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. Factors such as the probability of insolvency or significant delays in payments are objective evidence of impairment. In determining whether there is objective evidence of impairment, the Group considers whether there has been observable data indicating that there have been significant changes in the debtor's payment ability or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the end of the reporting period is disclosed in Note 15 to the financial statements.

#### (b) *Construction contracts*

The Group recognises contract revenue by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome of a construction contract can be estimated reliably. The stage of completion is measured by reference to the measurement of work performed. In making these estimates, management will place reliance on measurements performed by professionals and project engineers. The carrying amounts of assets and liabilities arising from construction contracts at the end of the reporting period are disclosed in Note 16 to the financial statements.

If the revenue on major uncompleted contracts as at balance sheet date had been 10% lower/higher than management's estimate, the Group's revenue would have been lower/higher by 3% (2014: 7%).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 4. GROUP COMPANIES

The subsidiaries and associates at 31 December 2015 and 2014 are:

| Name of Company (Country of incorporation and place of business) | Principal activities | Proportion (%) of ownership interest 2015 | 2014 |
|---|---|---|---|
| ***Subsidiaries held by the Company:*** | | | |
| Rotary Electrical & Instrumentation Pte. Ltd. [1] (Singapore) | Electrical and engineering contractor and supplier | **100.0** | 100.0 |
| Rotary Mechanical and Construction Company (Private) Limited [1] (Singapore) | Contractor in mechanical piping and related works | **100.0** | 100.0 |
| Rotary-Thai Construction Pte. Ltd.[1] (Singapore) | Contractor in engineering and scaffolding works | **100.0** | 100.0 |
| Rotary IMC Pte. Ltd. [1] (Singapore) | Provision of integrated maintenance services | **100.0** | 100.0 |
| Supermec Private Limited [1] (Singapore) | Insurance broker and electrical and engineering material traders | **60.0** | 60.0 |
| Rotary BNC Pte. Ltd. (formerly known as Rotary TREL Pte Ltd) [1] (Singapore) | Engineering design, procurement and construction services for plants and associated facilities | **100.0** | 100.0 |
| Sixty-Six Switchgears Co Pte Ltd [1] (Singapore) | Electrical testing and testing of switchgear | **60.0** | 60.0 |
| Innovative Biotech Pte Ltd [6] (Singapore) | Trading of medical products and equipment | **99.7** | 99.7 |
| ROIL Pte. Ltd. [1] (Singapore) | Ship leasing and cargo vessel operator | **100.0** | 100.0 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 4. GROUP COMPANIES (CONT'D)

| Name of Company (Country of incorporation and place of business) | Principal activities | Proportion (%) of ownership interest 2015 | 2014 |
|---|---|---|---|
| ***Subsidiaries held by the Company (cont'd):*** | | | |
| Oro Storage Asset Management Pte. Ltd. (formerly known as Roar Asset Management Pte. Ltd.) [1] (Singapore) | Investment holding | **100.0** | 100.0 |
| ShopGlobal Pte. Ltd. [1] (Singapore) | Investment holding | **100.0** | 100.0 |
| BuildGlobal Pte. Ltd. [1] (Singapore) | Dormant | **100.0** | 100.0 |
| Rotary Logistics Pte. Ltd. [1] (Singapore) | Dormant | **100.0** | 100.0 |
| Rotary Automation Pte. Ltd. [4] (Singapore) | Dormant | **100.0** | 100.0 |
| Rotary Electrical Company (Private) Limited [4] (Singapore) | Dormant | **100.0** | 100.0 |
| Rotary (APAC) Offshore Pte. Ltd. [4] (Singapore) | EPC works and developments for LNG related projects | **100.0** | – |
| Thai Rotary Engineering Public Company Limited [3][5] (Thailand) | Engineering design and construction works | **95.2** | 95.2 |
| Calvert Limited [3] (Thailand) | Investment holding | **90.6** | 90.6 |
| Rotary International Trading (Shanghai) Co., Ltd. [6] (People's Republic of China) | Construction and engineering related materials and equipment as well as provision of trading agency and services | **100.0** | 100.0 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 4. GROUP COMPANIES (CONT'D)

| Name of Company (Country of incorporation and place of business) | Principal activities | Proportion (%) of ownership interest 2015 | 2014 |
|---|---|---|---|
| ***Subsidiaries held by the Company (cont'd):*** | | | |
| Rotary Engineering (Dalian) Co., Ltd. [7] (People's Republic of China) | Provide engineering design, management, construction and advisory services; engineering personnel and worker training services | **–** | 100.0 |
| Fushun Rotary Engineering Co Ltd [4] (People's Republic of China) | Dormant | **90.0** | 90.0 |
| P.T. Rotary Engineering Indonesia [2][a] (Indonesia) | Steel fabrication and construction | **100.0** | 100.0 |
| P.T. Rotary MECOM [4] (Indonesia) | Dormant | **70.0** | 70.0 |
| Rotary MEC Engineering (India) Private Limited [2][b] (India) | Dormant | **100.0** | 100.0 |
| Rotary Engineering (Australia) Pty Ltd [8] (Australia) | Dormant | **–** | 100.0 |
| Singlobal (M) Sdn. Bhd. [2][d] (Malaysia) | Engineering design, procurement and construction services for plants and associated facilities | **100.0** | 100.0 |
| Petrol Steel Company Limited [3] (Saudi Arabia) | Engineering, procurement and construction services for storage tanks of oil & gas, petroleum and petrochemical plants | **51.0** | 51.0 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 4. GROUP COMPANIES (CONT'D)

| Name of Company (Country of incorporation and place of business) | Principal activities | Proportion (%) of ownership interest 2015 | 2014 |
|---|---|---|---|
| ***Subsidiaries held by the Company (cont'd):*** | | | |
| Rotary Arabia Company Limited [3] (Saudi Arabia) | Construction works, maintenance and providing professionals and engineers in relation to engineering, procurement, construction and commissioning of the refinery tanks | **51.0** | 51.0 |
| Rotary Engineering Fujairah FZE [3] (United Arab Emirates) | Engineering, procurement and construction services for storage tanks of oil & gas, petroleum and petrochemical plants | **100.0** | 100.0 |
| ***Held by subsidiaries:*** | | | |
| P.T. Rotary Engineering South East Asia [2][e] (Indonesia) | Engineering design, procurement and construction services for plants and associated facilities | **95.0** | 95.0 |
| ORO Storage (HK) Limited [2][c] (Hong Kong SAR) | Trading of construction material and equipment, oil and gas product | **100.0** | – |
| Supermec Vietnam Co., Ltd [2][f] (Vietnam) | Importing, exporting and distribution of ex-proof lightings and equipment, cables and cable support system, heat tracing materials, valves, piping and fittings and other related products | **60.0** | 60.0 |
| Supermec (M) Sdn. Bhd. [2][g] (Malaysia) | Trading in electrical and engineering materials | **60.0** | 60.0 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 4. GROUP COMPANIES (CONT'D)

| Name of Company (Country of incorporation and place of business) | Principal activities | Proportion (%) of ownership interest 2015 | 2014 |
|---|---|---|---|
| ***Held by subsidiaries (cont'd):*** | | | |
| Supermec Proizvodnja in Prodaja Elektronike d.o.o.[4] (Slovenia) | Manufacturing and sale of electrical distribution and control apparatus, lighting, equipment, machinery and industrial equipment | **60.0** | – |
| Sinmec Engineering Services (India) Private Limited [2][h] (India) | Engineering design, execution and management of EPC (engineering design, procurement and construction), and recruitment, training and deployment of engineers to projects | **100.0** | 100.0 |
| Rotary Engineering Myanmar Company Limited [4] (Myanmar) | Dormant | **100.0** | 100.0 |

[1] Audited by Ernst & Young LLP, Singapore
[2] Audited by other firms
- [a] Jamaludin, Ardi, Sukimto & Rekan, Indonesia
- [b] Sudhakar Pai Associates, Chartered Accountants, India
- [c] TAKA CPA Limited
- [d] Deloitte & Touche, Chartered Accountants, Malaysia
- [e] KAP Charles & Nurlena Registered Public Accountants, Indonesia
- [f] Auditing and Informatic Services Company Limited, Vietnam
- [g] W.L. Chong & Associates, Malaysia
- [h] R. Subramanian and Company, Chartered Accountants, India

[3] Audited by member firms of Ernst & Young Global in the respective countries
[4] Not required to be audited under the laws of the country of incorporation
[5] The Company holds a direct interest of 48.6% in the subsidiary. The balance interest is held through a subsidiary.
[6] Not audited as the Companies are in the process of being liquidated.
[7] During the year, Rotary Engineering (Dalian) Co., Ltd has been liquidated pursuant to member's voluntary liquidation.
[8] Rotary Engineering Australia Pty Limited has been deregistered.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 4. GROUP COMPANIES (CONT'D)

| Name of Company (Country of incorporation and place of business) | Principal activities | Proportion (%) of ownership interest 2015 | 2014 |
|---|---|---|---|
| ***Associates held by the Company:*** | | | |
| Rotary MEC (M) Sdn. Bhd. [2][a] (Malaysia) | Engineering works | **49.0** | 49.0 |
| Jasinusa Automobile Pte. Ltd. [2][b][3] (Singapore) | Investment holding | **34.8** | 37.5 |
| Eastlog Holding Pte. Ltd. [1] (Singapore) | Investment holding | **22.2** | 22.2 |
| Jinzhou Everthriving Logistics Co., Ltd. [2][c] (People's Republic of China) | Transport and sale of liquefied natural gas | **45.0** | 45.0 |
| ***Associates held by subsidiaries:*** | | | |
| iPromar (Pte.) Ltd. [2][d] (Singapore) | Process plant engineering services | **25.0** | 25.0 |
| P.T. Marino Logistics[2][e] (Indonesia) | Ship owning and provision of marine transportation services | **49.0** | 49.0 |

[1] Audited by Ernst & Young LLP, Singapore
[2] Audited by other firms
- [a] Deloitte & Touche, Chartered Accountants, Malaysia
- [b] BDO LLP, Singapore
- [c] Liaoning Huawei Accountant's Company Ltd, China
- [d] AAA Assurance Pac Public Accountants and Chartered Accountants, Singapore
- [e] KAP Charles & Nurlena Registered Public Accountants, Indonesia

[3] During the year, the Company disposed 2.73% equity interest in Jasinusa Automobile Pte. Ltd. for a consideration of $411,000.

## 5. REVENUE

| | Group 2015 $'000 | 2014 $'000 |
|---|---|---|
| Services | **322,150** | 675,002 |
| Sales of goods | **7,124** | 12,656 |
| | **329,274** | 687,658 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 6. PROFIT BEFORE TAX

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

| | Group | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| *Other income* | | |
| Gain on disposal of property, plant and equipment | **270** | – |
| Gain on disposal of associate | **76** | – |
| Gain on disposal of other investment (Note 13) | **3,000** | – |
| Investment income | **965** | – |
| Sales of scrap | **2,163** | 1,198 |
| Government grants | **829** | 320 |
| Write back of impairment of an associate | **6,816** | – |
| Others | **470** | 610 |
| Audit fees paid to: | | |
| – Auditor of the Company | **(204)** | (232) |
| – Other auditors | **(195)** | (190) |
| Non-audit fees paid to: | | |
| – Auditor of the Company | **(11)** | (10) |
| – Other auditors | **(152)** | (9) |
| Depreciation of property, plant and equipment (Note 9) | **(9,288)** | (11,398) |
| Amortisation of intangible assets (Note 10) | **(594)** | (1,415) |
| Write back of/(allowance) for doubtful debts (Note 15) | **6** | (552) |
| Amortisation of prepaid loan appraisal fees | **(245)** | (225) |
| Bad debts written off (Note 15) | **–** | (42) |
| Employee benefits expense (including executive directors): | | |
| – Salaries, bonuses and other benefits | **(91,549)** | (105,624) |
| – Central Provident Fund contributions | **(3,780)** | (4,151) |
| – Other short-term benefits | **(20,865)** | (28,852) |
| Fair value gain/(loss) on foreign currency contracts, net | **821** | (782) |
| Finance charges under finance lease | **–** | (8) |
| Interest expense on loans and borrowings (excluding finance charges) | **(170)** | (835) |
| Inventories written down (Note 17) | **(65)** | (49) |
| Loss on disposal of property, plant and equipment | **–** | (521) |
| Write back of inventories previously written down | **4** | – |
| Impairment of plant and equipment (Note 9) | **(29)** | – |

Government grants relates mainly to amounts received from Wage Credit Scheme (WCS), Temporary Employment Credit (TEC) and Special Employment Credit (SEC) by the Singapore government to local companies.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 7. INCOME TAX EXPENSE

### (a) *Major components of income tax expense*

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

| | Group 2015 $'000 | Group 2014 $'000 |
|---|---|---|
| **Consolidated income statement:** | | |
| Current income tax | | |
| – Current year | | |
| Singapore | **(1,407)** | (6,759) |
| Foreign | **(2,512)** | (2,429) |
| | **(3,919)** | (9,188) |
| – Overprovision in respect of previous years | **933** | 1,068 |
| | **(2,986)** | (8,120) |
| Deferred income tax | | |
| – Origination and reversal of temporary differences | **100** | 199 |
| Income tax expense recognised in profit or loss | **(2,886)** | (7,921) |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 7. INCOME TAX EXPENSE (CONT'D)

### (b) *Relationship between tax expense and accounting profit*

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2015 and 2014 is as follows:

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | $'000 | $'000 |
| Profit before tax | **47,950** | 48,896 |
| Tax at the domestic rates applicable to profits in the countries where the Group operates | **(2,308)** | (3,466) |
| Adjustments: | | |
| Non-deductible expenses | **(1,488)** | (5,004) |
| Income not subject to taxation | **2,185** | 264 |
| Effect of Development & Expansion Incentive on qualifying transactions | **271** | 247 |
| Effect of partial tax exemption and tax relief | **524** | 439 |
| Deferred tax assets not recognised | **(2,958)** | (1,243) |
| Overprovision in respect of previous years | **933** | 1,068 |
| Share of results of associates | **(45)** | (226) |
| Income tax expense recognised in profit or loss | **(2,886)** | (7,921) |

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

Singapore

The Company is granted the Development & Expansion Incentive under the International Headquarters Award, which income from qualifying transactions, in excess of the average corresponding income ("base"), are taxed at the concessionary rate of 5% for a period up to 31 December 2019. The base of $2,400,000 as well as income from non-qualifying activities shall be taxed at the normal corporate tax rate of 17%. The other entities in Singapore are taxed at a corporate tax rate of 17% (2014: 17%).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 7. INCOME TAX EXPENSE (CONT'D)

### (b) *Relationship between tax expense and accounting profit (cont'd)*

Kingdom of Saudi Arabia

The tax rate applicable in Saudi Arabia was 20% (2014: 20%).

United Arab Emirates, Fujairah

The Company has a subsidiary which is a registered establishment with the Fujairah Free Zone Authority of the United Arab Emirates and is entitled to certain incentives including 100% corporate tax exemption.

## 8. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing earnings for the year, net of tax, attributable to owners of the Company amounting to $42,779,000 (2014: $50,084,000) by the weighted average number of ordinary shares outstanding during the financial year of 567,518,000 (2014: 567,518,000).

The Company did not have any potential ordinary shares during the year and in the previous financial year.

There have been no transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 9. PROPERTY, PLANT AND EQUIPMENT

| Group | Freehold land | Leasehold land and buildings | Office renovations | Office equipment, furniture and fittings | Motor vehicles | Plant and machinery | Other assets | Construction-in-progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | '$'000 |
| **Cost:** | | | | | | | | | |
| At 1 January 2014 | 855 | 47,623 | 3,083 | 14,934 | 9,443 | 59,041 | 14,444 | 533 | 149,956 |
| Additions | – | – | 154 | 838 | 1,007 | 2,672 | 778 | 956 | 6,405 |
| Disposals | – | – | (436) | (389) | (673) | (3,337) | (289) | (49) | (5,173) |
| Reclassification | – | – | – | 4 | – | 1,095 | 89 | (1,188) | – |
| Currency realignment | 35 | 736 | 21 | 122 | 118 | 1,819 | 416 | 22 | 3,289 |
| At 31 December 2014 and 1 January 2015 | **890** | **48,359** | **2,822** | **15,509** | **9,895** | **61,290** | **15,438** | **274** | **154,477** |
| Additions | **297** | **763** | **18** | **327** | **796** | **718** | **114** | **323** | **3,356** |
| Disposals | **–** | **–** | **(15)** | **(257)** | **(579)** | **(717)** | **(193)** | **–** | **(1,761)** |
| Reclassification | **–** | **–** | **–** | **–** | **–** | **4** | **–** | **(4)** | **–** |
| Currency realignment | **(22)** | **691** | **22** | **100** | **109** | **1,509** | **16** | **(8)** | **2,417** |
| At 31 December 2015 | **1,165** | **49,813** | **2,847** | **15,679** | **10,221** | **62,804** | **15,375** | **585** | **158,489** |
| **Accumulated depreciation and impairment loss:** | | | | | | | | | |
| At 1 January 2014 | – | 17,484 | 2,153 | 13,505 | 7,277 | 44,536 | 11,271 | – | 96,226 |
| Charge for the year | – | 1,503 | 240 | 1,129 | 1,053 | 6,514 | 959 | – | 11,398 |
| Disposals | – | – | (378) | (356) | (484) | (2,395) | (275) | – | (3,888) |
| Currency realignment | – | 185 | 19 | 114 | 98 | 1,563 | 373 | – | 2,352 |
| At 31 December 2014 and 1 January 2015 | **–** | **19,172** | **2,034** | **14,392** | **7,944** | **50,218** | **12,328** | **–** | **106,088** |
| Charge for the year | **–** | **1,521** | **240** | **757** | **700** | **5,002** | **1,068** | **–** | **9,288** |
| Disposals | **–** | **–** | **(15)** | **(250)** | **(568)** | **(675)** | **(192)** | **–** | **(1,700)** |
| Impairment | **–** | **–** | **–** | **(3)** | **–** | **(26)** | **–** | **–** | **(29)** |
| Currency realignment | **–** | **29** | **19** | **97** | **93** | **1,544** | **20** | **–** | **1,802** |
| At 31 December 2015 | **–** | **20,722** | **2,278** | **14,993** | **8,169** | **56,063** | **13,224** | **–** | **115,449** |
| **Net carrying amount:** | | | | | | | | | |
| At 31 December 2015 | **1,165** | **29,091** | **569** | **686** | **2,052** | **6,741** | **2,151** | **585** | **43,040** |
| At 31 December 2014 | 890 | 29,187 | 788 | 1,117 | 1,951 | 11,072 | 3,110 | 274 | 48,389 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 9. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| Company | Leasehold land and buildings | Office renovations | Office equipment, furniture and fittings | Motor vehicles | Plant and machinery | Other assets | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost:** | | | | | | | |
| At 1 January 2014 | 10,304 | 1,588 | 9,954 | 637 | 3,797 | 2,277 | 28,557 |
| Additions | – | 154 | 377 | 489 | – | 19 | 1,039 |
| Disposals | – | – | (114) | (39) | – | – | (153) |
| At 31 December 2014 and 1 January 2015 | **10,304** | **1,742** | **10,217** | **1,087** | **3,797** | **2,296** | **29,443** |
| Additions | **763** | **12** | **144** | **492** | **46** | **14** | **1,471** |
| Disposals | **–** | **–** | **(156)** | **(235)** | **–** | **–** | **(391)** |
| At 31 December 2015 | **11,067** | **1,754** | **10,205** | **1,344** | **3,843** | **2,310** | **30,523** |
| **Accumulated depreciation:** | | | | | | | |
| At 1 January 2014 | 4,122 | 940 | 9,383 | 361 | 2,596 | 2,275 | 19,677 |
| Charge for the year | 206 | 160 | 446 | 135 | 381 | 4 | 1,332 |
| Disposals | – | – | (112) | (36) | – | – | (148) |
| At 31 December 2014 and 1 January 2015 | **4,328** | **1,100** | **9,717** | **460** | **2,977** | **2,279** | **20,861** |
| Charge for the year | **214** | **172** | **443** | **181** | **295** | **11** | **1,316** |
| Disposals | **–** | **–** | **(153)** | **(208)** | **–** | **–** | **(361)** |
| At 31 December 2015 | **4,542** | **1,272** | **10,007** | **433** | **3,272** | **2,290** | **21,816** |
| **Net carrying amount:** | | | | | | | |
| At 31 December 2015 | **6,525** | **482** | **198** | **911** | **571** | **20** | **8,707** |
| At 31 December 2014 | 5,976 | 642 | 500 | 627 | 820 | 17 | 8,582 |

(a) During the financial year, the Group acquired motor vehicles with an aggregate cost of $492,000 (2014: Nil) by means of finance lease. The cash outflow on acquisition of property, plant and equipment amounted to $3,213,000 (2014: $6,405,000).

The carrying amount of fixed assets held under finance leases at the end of the reporting period was $478,000 (2014: $6,000).

Leased assets are pledged as security for the related finance lease liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

**9. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

(b) In addition to assets held under finance leases, leasehold land, leasehold building and plant and equipment of a subsidiary with a carrying amount of $11,552,000 (2014: $11,202,000) are mortgaged to secure the subsidiary's bank loans (Note 20).

(c) The following are the major properties of the Group:

***Located in Singapore:***

(i) A 3-hangar workshop building and a 3-storey office building located at 17 Tuas Avenue 20 on a leasehold land area of 19,863 sqm (30 years from 1 January 1992 with renewal option of 30 years).

(ii) A JTC Type 4 single-storey corner terrace with extended mezzanine office floor at 2 Gul Street 2 on a leasehold land area of 1,610 sqm (25 years from 6 August 2011).

(iii) A building on a leasehold land area of 27,027 sqm in Jurong Island for industrial use (30 years from 1 April 1999).

***Located overseas:***

(i) A leasehold land and building with a land area of 120,000 sqm in Batam, Indonesia for industrial use (30 years from 1996).

(ii) A freehold land and workshop building with a land area of 95,464 sqm in Banchang Rayong, Thailand for industrial use.

(iii) A leasehold land with an area of 64,943 sqm in Jubail, Saudi Arabia for industrial use (10 years from 2006).

(iv) An industrial property in Malaysia with a leasehold land area of 669 sqm with existing office, factory and ancillary buildings located at No. 16 Jalan PJS 7/21 Bandar Sunway, 46150 Petaling Jaya, Selangor (55 years from 2009).

(v) An office building on a land area of 739 sqm in Bangalore, India.

(vi) A leasehold land with an area of 10,021 sqm in Al Hail Industrial Area – Block M – Plot No. 6 – Fujairah & limited with four boundaries for construction of fabrication shop and office.

(vii) A freehold land with an area of 4,639 sqm in Slovenia for construction of manufacturing plant.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 10. INTANGIBLE ASSETS

| | Group Software $'000 | Company Software $'000 |
|---|---|---|
| **Cost:** | | |
| At 1 January 2014 | 7,929 | 6,427 |
| Additions | 551 | 144 |
| Disposals | (142) | – |
| Currency realignment | 47 | – |
| At 31 December 2014 and 1 January 2015 | **8,385** | **6,571** |
| Additions | **237** | **149** |
| Disposals | **(639)** | **–** |
| Currency realignment | **1** | **–** |
| At 31 December 2015 | **7,984** | **6,720** |
| **Accumulated amortisation:** | | |
| At 1 January 2014 | 5,855 | 4,553 |
| Amortisation for the year | 1,415 | 1,167 |
| Disposals | (130) | – |
| Currency realignment | 46 | – |
| At 31 December 2014 and 1 January 2015 | **7,186** | **5,720** |
| Amortisation for the year | **594** | **393** |
| Disposals | **(639)** | **–** |
| Currency realignment | **3** | **–** |
| At 31 December 2015 | **7,144** | **6,113** |
| **Net carrying amount:** | | |
| At 31 December 2015 | **840** | **607** |
| At 31 December 2014 | 1,199 | 851 |

The amortisation of software is included in the 'Other operating costs' line item in the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 11. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2015** | **2014** |
| | $'000 | $'000 |
| Unquoted equity shares, at cost | **66,921** | 68,455 |
| Less: Impairment losses | **(16,042)** | (18,129) |
| | **50,879** | 50,326 |

Details of the subsidiaries companies are set out in Note 4 to the financial statements.

**Impairment testing of investments in subsidiaries**

In the previous year, an impairment loss of $1,586,700 was recognised to write down carrying amounts in certain subsidiaries which are in net capital deficit position and to write down certain subsidiaries, which have been persistently making losses, to their net asset value.

**Interest in subsidiary with material non-controlling interest (NCI)**

The following subsidiary has NCI that is material to the Group:

Petrol Steel Company Limited

| | **2015** | **2014** |
|---|---|---|
| | $'000 | $'000 |
| Principal place of business | **Saudi Arabia** | Saudi Arabia |
| Proportion of ownership interest held by NCI | **49%** | 49% |
| Profit/(Loss) allocated to NCI during the reporting period | **612** | (10,956) |
| Accumulated NCI at the end of the reporting period | **(144,975)** | (134,131) |

There are no other significant restrictions on the Group's ability to use or access assets and settle liabilities of the subsidiary with material non-controlling interest except as disclosed in Note 23(b).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

**Summarised information about subsidiary with material NCI**

Summarised financial information before intercompany eliminations of subsidiary with material non-controlling interests are as follows:

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| Summarised balance sheet | | |
| Current: | | |
| Assets | **18,507** | 41,340 |
| Liabilities | **321,030** | 322,366 |
| **Net current liabilities** | **(302,523)** | (281,026) |
| Non-current: | | |
| Assets | **13,315** | 16,061 |
| Liabilities | **6,659** | 8,772 |
| **Net non-current assets** | **6,656** | 7,289 |
| **Net liabilities** | **(295,867)** | (273,737) |
| Summarised statement of comprehensive income | | |
| Revenue | **37,197** | 19,807 |
| Profit/(Loss) before income tax | **1,248** | (22,360) |
| Net profit/(loss) after tax | **1,248** | (22,360) |
| Other comprehensive income | **(18,471)** | (10,752) |
| Total comprehensive income | **(17,223)** | (33,112) |
| Other summarised information | | |
| Net cash flows from/(used in) operations | **22,430** | (30,653) |
| Net cash flows (used in)/from financing activities | **(26,939)** | 32,190 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 12. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| Unquoted equity shares, at cost | **24,712** | 24,343 | **23,966** | 24,218 |
| Impairment losses | **(7,700)** | (14,516) | **(11,439)** | (18,255) |
| | **17,012** | 9,827 | **12,527** | 5,963 |
| Share of post-acquisition reserves | **(2,702)** | (1,070) | **–** | – |
| Currency realignment | **(92)** | (164) | **–** | – |
| Carrying value of investments | **14,218** | 8,593 | **12,527** | 5,963 |

Details of the associates are set out in Note 4 to the financial statements.

In the previous years, total impairment losses of $14,516,000 and $18,255,000 had been recognised for the Group and the Company respectively, to write down the carrying value of associates as the associates have been persistently making losses. During the year, impairment loss of $6,816,000 of an associate was written back due to a turnaround in the associate's business and financial performance.

In the previous year, the Group disposed its interest in Itro Pte Ltd for an aggregate consideration of $3,200,000 and no gain or loss was recognised in the consolidated income statement. During the year, the Group disposed its partial interest in Jasinusa Automobile Pte. Ltd. for an aggregate consideration of $411,000 and recognised a gain on disposal of an associate amounting to $76,000 in "Other income" line item of the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 12. INVESTMENTS IN ASSOCIATES (CONT'D)

Aggregate information about the Group's investments in associates, not adjusted for the proportion of ownership interest held by the Group, that are not individually material is as follows:

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | $'000 | $'000 |
| **Assets and liabilities** | | |
| Current assets | **77,864** | 63,635 |
| Non-current assets | **132,810** | 140,170 |
| **Total assets** | **210,674** | 203,805 |
| Current liabilities | **61,818** | 140,984 |
| Non-current liabilities | **17,421** | 17,804 |
| **Total liabilities** | **79,239** | 158,788 |
| **Results:** | | |
| Revenue | **69,524** | 64,553 |
| Profit for the year | **2,794** | 415 |

## 13. OTHER INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| **Other investments, non-current** | | | | |
| *Available-for-sale financial assets* | | | | |
| Quoted shares, at fair value | **29** | 29 | **28** | 28 |
| Unquoted equity investments | **2,612** | 2,785 | **976** | 1,264 |
| Less: Impairment losses | **(109)** | (397) | **(109)** | (397) |
| | **2,532** | 2,417 | **895** | 895 |
| *Loans and receivables* | | | | |
| Investment loans | **28,539** | 24,067 | **–** | – |
| | **31,071** | 26,484 | **895** | 895 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 13. OTHER INVESTMENTS (CONT'D)

Included in unquoted equity investments is an amount of $1,636,000 (2014: $1,520,000), equivalent to US$1,150,000 for a 10% equity stake in an independent oil storage terminal in Indonesia.

Investment loans comprises two loans amounting to a total of $28,539,000 (2014: $24,067,000), equivalent to US$20,180,000 (2014: US$18,200,000) invested by a subsidiary of the Company to support operations of the independent oil storage terminal in Indonesia.

Details of the loans are as follows:

(i) Loan with principal amount of $26,135,000 (2014: $21,820,000), equivalent to US$18,480,000 (2014: US$16,500,000), bears interest at 12% per annum. Principal amount increased during the year due to interest amounting to US$1,980,000 (equivalent to $2,800,000) was capitalised.

(ii) Loan with principal amount of $2,404,000 (2014: $2,247,000), equivalent to US$1,700,000 (2014: US$1,700,000), bears interest at the deposit rate of PT Bank Rakyat Indonesia.

Both the loans are repayable by year 2024 and year 2017 respectively.

During the year, the Company disposed its interest in a fully impaired unquoted equity investment for a total consideration amounting to $3,000,000 and recognised a gain on disposal of other investment amounting to $3,000,000 in "Other income" line item of the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

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## 14. DEFERRED TAX

Deferred tax as at 31 December relates to the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| **Deferred tax liabilities** | | | | |
| Differences in depreciation for tax purposes | **(2,386)** | (2,632) | **(1,391)** | (1,484) |
| **Deferred tax assets** | | | | |
| Unutilised tax losses | **–** | 12 | **–** | – |
| Provisions | **1,388** | 1,522 | **136** | 170 |
| | **1,388** | 1,534 | **136** | 170 |
| | **(998)** | (1,098) | **(1,255)** | (1,314) |
| **Disclosures in balance sheets:** | | | | |
| Deferred tax assets | **1,022** | 1,052 | **–** | – |
| Deferred tax liabilities | **(2,020)** | (2,150) | **(1,255)** | (1,314) |
| | **(998)** | (1,098) | **(1,255)** | (1,314) |

# NOTES TO THE FINANCIAL STATEMENTS

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## 14. DEFERRED TAX (CONT'D)

Unrecognised tax losses

A loss-transfer system of group relief (group relief system) for companies was introduced in Singapore with effect from year of assessment 2003. Under the group relief system, a company belonging to a group may transfer its current year unabsorbed capital allowances, current year unabsorbed trade losses and current year unabsorbed donations (loss items) to another company belonging to the same group, to be deducted against the assessable income of the latter company.

At the end of the reporting period, the Group has tax losses and unabsorbed capital allowances of approximately $183,039,000 (2014: $168,182,000) and $2,641,000 (2014: $74,000) respectively that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

Unrecognised temporary differences relating to investments in subsidiaries

At the end of the reporting period, no deferred tax liability (2014: Nil) has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future.

Such temporary differences for which no deferred tax liability has been recognised aggregate to $22,322,000 (2014: $17,288,000). The deferred tax liability is estimated to be $2,546,000 (2014: $1,736,000).

Tax consequences of proposed dividends

There are no income tax consequences (2014: Nil) attached to the proposed dividends by the Company to its shareholders (Note 30).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 15. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| **Trade and other receivables (current):** | | | | |
| Trade receivables | | | | |
| – External parties | **90,243** | 172,548 | **54,371** | 90,450 |
| – Subsidiaries | **–** | – | **2,268** | 1,976 |
| – Associates | **320** | 380 | **1** | 4 |
| Other receivables | | | | |
| – Subsidiaries (non-trade) | **–** | – | **155,832** | 165,492 |
| – Associates (non-trade) | **166** | 45 | **112** | 37 |
| – External parties | **7,312** | 4,325 | **–** | – |
| Loan and advances | **4,404** | 3,423 | **2** | 81 |
| Sundry deposits | **2,430** | 2,657 | **1,553** | 1,645 |
| Recoverables | **2,507** | 1,268 | **512** | 769 |
| Income tax recoverables | **916** | 856 | **–** | – |
| Interest receivables | **1,069** | 2 | **7** | – |
| | **109,367** | 185,504 | **214,658** | 260,454 |
| **Other receivables (non-current):** | | | | |
| Other receivables | | | | |
| – Associates (non-trade) | **3,855** | 10,367 | **3,855** | 10,367 |
| Less: Allowance for impairment | **(3,855)** | (3,582) | **(3,855)** | (3,582) |
| | **–** | 6,785 | **–** | 6,785 |
| Total trade and other receivables (current and non-current) | **109,367** | 192,289 | **214,658** | 267,239 |
| Add: Cash and short-term deposits (Note 19) | **118,215** | 157,057 | **60,062** | 57,205 |
| Total loans and receivables | **227,582** | 349,346 | **274,720** | 324,444 |

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 15. TRADE AND OTHER RECEIVABLES (CONT'D)

Trade receivables denominated in currencies other than SGD at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| Arab Emirates Dirham | **11,405** | – | **–** | – |
| Thai Baht | **11,676** | 4,461 | **–** | – |
| United States Dollar | **37,111** | 96,060 | **26,712** | 43,880 |

Related party balances

Amounts due from subsidiaries and associates included in current trade and other receivables are unsecured, repayable upon demand and are to be settled in cash. These amounts are non-interest bearing except for loans at carrying amount of $82,453,000 (2014: $100,593,000) and $4,476,000 (2014: $2,776,000) which carried interest at a rate of 5.5% and 6% per annum respectively.

Non-current amounts due from associates are unsecured, have no repayment terms and are repayable only when the cash flow of the borrower permits. Accordingly, the fair values of these amounts are not determinable as the timing of the future cash flow arising from the amounts cannot be estimated reliably. In FY2014, the loan amounts of $5,951,000 and $834,000 bear interest at a rate of 8% and 10% per annum, respectively. During the year, the associate has fully repaid the principle loan amounting to US$5,131,000, equivalent to S$7,040,000 (2014: S$6,785,000).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 15. TRADE AND OTHER RECEIVABLES (CONT'D)

Receivables that are past due but not impaired

The Group and Company has trade receivables amounting to $17,317,000 (2014: $17,900,000) and $5,633,000 (2014: $8,982,000) that are past due at the end of the reporting period but not impaired respectively. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables past due but not impaired: | | | | |
| Lesser than 30 days | **4,182** | 7,100 | **762** | 2,215 |
| 30 – 60 days | **1,440** | 1,891 | **102** | 40 |
| 61 – 90 days | **951** | 725 | **–** | – |
| 91 – 120 days | **85** | 768 | **–** | 589 |
| More than 120 days | **10,659** | 7,416 | **4,769** | 6,138 |
| | **17,317** | 17,900 | **5,633** | 8,982 |

Receivables that are impaired

The Group's and the Company's trade receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment is as follows:

| | Group Individually impaired | | Company Individually impaired | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables – nominal amounts | **1,008** | 1,028 | **–** | – |
| Less: Allowance for impairment | **(1,008)** | (1,028) | **–** | – |
| | **–** | – | **–** | – |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 15. TRADE AND OTHER RECEIVABLES (CONT'D)

Receivables that are impaired (cont'd)

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| Movement in allowance accounts: | | | | |
| At 1 January | **1,028** | 463 | **–** | – |
| Charge for the year | **–** | 552 | **–** | – |
| Write back for the year | **(6)** | – | **–** | – |
| Currency realignment | **(14)** | 13 | **–** | – |
| | **1,008** | 1,028 | **–** | – |

During the year, Nil (2014: $42,000) trade receivables were written off directly to profit or loss.

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

## 16. GROSS AMOUNT DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK-IN-PROGRESS

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| Aggregate amount of costs incurred and recognised profits (less recognised losses) to date | **1,115,719** | 1,973,851 | **759,866** | 1,180,910 |
| Less: Progress billings | **(1,164,190)** | (2,098,180) | **(808,275)** | (1,242,920) |
| | **(48,471)** | (124,329) | **(48,409)** | (62,010) |
| *Presented as:* | | | | |
| Gross amount due from customers for contract work-in-progress | **23,784** | 13,248 | **5,209** | 8,390 |
| Gross amount due to customers for contract work-in-progress | **(72,255)** | (137,577) | **(53,618)** | (70,400) |
| | **(48,471)** | (124,329) | **(48,409)** | (62,010) |
| Retention sums on construction contract included in trade receivables | **41,823** | 78,010 | **34,824** | 39,822 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 17. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| **Balance sheet:** | | | | |
| Raw materials, supplies and consumables | **5,647** | 3,516 | **495** | 568 |
| Trading goods | **–** | 292 | **–** | – |
| Total inventories at lower of cost and net realisable value | **5,647** | 3,808 | **495** | 568 |

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | $'000 | $'000 |
| **Income statement:** | | |
| Inventories recognised as an expense in "Cost of sales" | **3,367** | 5,093 |
| Inventories recognised as an expense in "Other operating costs" is inclusive of the following charge: | | |
| – Inventories written down | **65** | 49 |

## 18. FOREIGN CURRENCY CONTRACTS

| | | Group and Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2015 | | | 2014 | | |
| | **Maturity date** | **Contract/ Notional Amount** | **Assets** | **Liabilities** | **Contract/ Notional Amount** | **Assets** | **Liabilities** |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Forward currency contracts to sell USD and buy SGD – at fair value through profit or loss | 17-Feb16 to 18-Apr-16 | **84,852** | **–** | **(339)** | 111,082 | 238 | (1,398) |

The Group does not apply hedge accounting in respect to the above foreign exchange contract.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 19. CASH AND SHORT-TERM DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| Short-term deposits | **49,289** | 19,919 | **41,291** | 12,000 |
| Cash at banks and on hand | **68,926** | 137,138 | **18,771** | 45,205 |
| Cash and cash equivalents | **118,215** | 157,057 | **60,062** | 57,205 |

Cash at banks earn interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one week to three months, depending on the immediate cash requirements of the Group and the Company, and earn interests at the respective short-term deposit rates. The weighted average effective interest rates as at 31 December 2015 for the Group and the Company were 0.31% (2014: 1.00%) and 0.23% (2014: 0.96%) respectively.

Cash and short-term deposits denominated in currencies other than SGD at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| Arab Emirates Dirham | **10,088** | 9,493 | **–** | – |
| Australian Dollar | **23** | – | **–** | – |
| Euro | **789** | 341 | **2** | 145 |
| Indian Rupee | **94** | 311 | **–** | – |
| Indonesian Rupiah | **76** | 180 | **–** | – |
| Malaysian Ringgit | **908** | 1,258 | **123** | 141 |
| Renminbi | **124** | 182 | **–** | – |
| Pound Sterling | **235** | 453 | **–** | – |
| Saudi Riyal | **1,037** | 6,098 | **–** | – |
| Thai Baht | **4,158** | 8,979 | **–** | – |
| United States Dollar | **46,024** | 26,440 | **40,824** | 12,607 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 20. LOANS AND BORROWINGS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Maturity | 2015 | 2014 | 2015 | 2014 |
| | | $'000 | $'000 | $'000 | $'000 |
| **Current:** | | | | | |
| Obligations under finance leases (Note 25a) | 2020 | **55** | 8 | **50** | – |
| Bank loans: | | | | | |
| – SAR term loan | 2018 | **2,749** | 2,261 | **–** | – |
| | | **2,804** | 2,269 | **50** | – |
| **Non-current:** | | | | | |
| Obligations under finance leases (Note 25a) | 2020 | **93** | – | **93** | – |
| Bank loans: | | | | | |
| – SAR term loan | 2018 | **6,659** | 8,772 | **–** | – |
| | | **6,752** | 8,772 | **93** | – |
| Total loans and borrowings | | **9,556** | 11,041 | **143** | – |

Obligations under finance leases

These obligations are secured by a charge over the leased assets (Note 9). The average discount rate implicit in the leases is 2.5% p.a. (2014: 3.0% p.a.). These obligations are denominated in the respective functional currencies of the relevant entities in the Group.

SAR term loan

In 2010, Saudi Industrial Development Fund (SIDF) sanctioned a loan of Saudi Arabian Riyal (SAR) 51,980,000 to a subsidiary. At 31 December 2015, an amount of SAR 43,723,000 (2014: SAR 43,723,000) has been drawn down from the facility. The loan is repayable in 14 semi-annual instalments commencing from 8 March 2014 with the last instalment on 29 June 2018. During the year ended 31 December 2015, the subsidiary has made repayments amounting to SAR 6,420,000 (2014: SAR 5,413,000). A SIDF loan appraisal fee of SAR 4,000,000 was deducted upfront and is being amortised over the period of the loan. The loan is secured by mortgage over property, plant and equipment of the subsidiary, mortgage over certain personal properties of the Saudi partners and pro-rata personal and corporate guarantees of both the partners. The interest rate for the loan is 2.97% (2014: 2.97%).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 21. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| **Trade and other payables (current):** | | | | |
| Trade payables | | | | |
| – External parties | **38,611** | 89,354 | **6,116** | 20,278 |
| – Subsidiaries | **–** | – | **12,744** | 33,601 |
| – Associates | **250** | 1,042 | **–** | – |
| Other payables | | | | |
| – External parties | **2,549** | 1,442 | **307** | 661 |
| – Subsidiaries (non-trade) | **–** | – | **73,444** | 90,022 |
| Accrued operating expenses | **52,077** | 51,688 | **15,259** | 17,278 |
| Total trade and other payables | **93,487** | 143,526 | **107,870** | 161,840 |
| Add: | | | | |
| Loans and borrowings (Note 20) | **9,556** | 11,041 | **143** | – |
| Total financial liabilities carried at amortised cost | **103,043** | 154,567 | **108,013** | 161,840 |

Trade and other payables are non-interest bearing. Trade payables are normally settled on 60-day terms while other payables have an average credit term of two months.

Trade payables denominated in currencies other than SGD as at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| Arab Emirates Dirham | **9,252** | 15,871 | **–** | 118 |
| Euro | **154** | 448 | **25** | 230 |
| Indonesian Rupiah | **632** | 60 | **–** | – |
| Pound Sterling | **26** | – | **–** | – |
| Saudi Riyal | **7,830** | 15,589 | **5** | 5 |
| Thai Baht | **1,500** | 4,693 | **–** | – |
| United States Dollar | **6,741** | 16,237 | **594** | 3,752 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 21. TRADE AND OTHER PAYABLES (CONT'D)

Amounts due to subsidiaries and associates

These amounts are unsecured, non-interest bearing, repayable on demand and are to be settled in cash.

Purchases from subsidiaries and associates are made at terms equivalent to those prevailing in arm's length transactions with third parties.

## 22. SHARE CAPITAL AND TREASURY SHARES

(a) *Share capital*

| | Group and Company | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | No. of shares '000 | $'000 | No. of shares '000 | $'000 |
| **Issued and fully paid ordinary shares:** | | | | |
| At 1 January and 31 December | **567,854** | **89,365** | 567,854 | 89,365 |

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

(b) *Treasury shares*

| | Group and Company | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | No. of shares '000 | $'000 | No. of shares '000 | $'000 |
| At 1 January and 31 December | **(336)** | **(161)** | (336) | (161) |

Treasury shares relate to ordinary shares of the Company that is held by the Company.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 23. OTHER RESERVES

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 |
| Foreign currency translation reserve | **4,769** | 620 | **–** | – |
| Statutory reserve | **300** | 300 | **–** | – |
| Capital reserve | **547** | 547 | **–** | – |
| | **5,616** | 1,467 | **–** | – |

(a) *Foreign currency translation reserve*

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

(b) *Statutory reserve*

In accordance with the Saudi Arabian Regulations applicable to the Group's subsidiaries in the Saudi Arabia ("SA"), these subsidiaries are required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory profits net of tax as determined in accordance with the applicable SA accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiary company's registered capital. Subject to the approval from the relevant SA authorities, the SRF may be used to offset any accumulated losses of the subsidiary company. The SRF is not available for dividend distribution to shareholders.

(c) *Capital reserve*

Included is an amount of $467,000 (2014: $467,000) relating to premium on acquisition of non-controlling interests.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 24. RELATED PARTY DISCLOSURES

### (a) *Sale and purchase of goods and services*

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | $'000 | $'000 |
| **Associates** | | |
| Contract sales and services | **1,904** | 6,065 |
| Rental received | **50** | 28 |

### (b) *Compensation of key management personnel*

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | $'000 | $'000 |
| Short-term employee benefits | **10,965** | 7,160 |
| Central Provident Fund contributions | **110** | 93 |
| | **11,075** | 7,253 |
| **Comprise amounts paid to:** | | |
| Directors of the Company | **8,146** | 4,982 |
| Other key management personnel | **2,929** | 2,271 |
| | **11,075** | 7,253 |

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 25. COMMITMENTS AND CONTINGENCIES

### (a) *Finance lease*

The Group and Company has finance leases for certain items of plant and equipment (Note 9). These leases have terms of renewal but no purchase options and escalation clauses. There are no restrictions placed upon the Group by entering into the leases. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

| | **2015** | | **2014** | |
|---|---|---|---|---|
| | **Minimum payments** | **Present value of payments** | **Minimum payments** | **Present value of payments** |
| | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | |
| Not later than one year | **53** | **55** | 9 | 8 |
| Later than one year but not later than five years | **108** | **93** | – | – |
| Total minimum lease payments | **161** | **148** | 9 | 8 |
| Less: Amounts representing finance charges | **(13)** | **–** | (1) | – |
| Present value of minimum lease payments | **148** | **148** | 8 | 8 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 25. COMMITMENTS AND CONTINGENCIES (CONT'D)

### (a) *Finance lease (cont'd)*

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Minimum payments** $'000 | **Present value of payments** $'000 | **Minimum payments** $'000 | **Present value of payments** $'000 |
| **Company** | | | | |
| Not later than one year | **50** | **50** | – | – |
| Later than one year but not later than five years | **105** | **93** | – | – |
| Total minimum lease payments | **155** | **143** | – | – |
| Less: Amounts representing finance charges | **(12)** | **–** | – | – |
| Present value of minimum lease payments | **143** | **143** | – | – |

### (b) *Operating lease commitments – as lessee*

The Group has entered into commercial leases on certain premises. These leases have remaining tenures ranging from 2 years to 21 years with no contingent rent provision included in the contracts.

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2015 amounted to $653,000 (2014: $701,000).

Future minimum rental payable under non-cancellable operating leases at the end of the reporting period are as follows:

| | Group | |
|---|---|---|
| | **2015** $'000 | **2014** $'000 |
| Not later than one year | **654** | 619 |
| Later than one year but not later than five years | **2,533** | 2,648 |
| Later than five years | **3,114** | 3,903 |
| | **6,301** | 7,170 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 25. COMMITMENTS AND CONTINGENCIES (CONT'D)

### (c) *Guarantees*

The Company has provided corporate guarantees to a maximum amount of $4,784,000 (2014: $5,628,000) to secure banking facilities for a subsidiary company (Note 20).

At the end of the reporting period, the Group and Company has provided bank guarantees amounting to $149,273,000 (2014: $132,021,000) and $144,012,000 (2014: $120,712,000) for the performance of its operating activities and construction contracts.

### (d) *Legal claim*

During the year, a Suit was filed in the High Court of the Republic of Singapore against the Company and two of the Company's officers.

The plaintiffs have claimed for amongst other things, damages to be assessed for alleged breaches of contracts purportedly entered into between the Company and the plaintiffs concerning matters involving work done in the Kingdom of Saudi Arabia and disputes arising therefrom.

Based on legal advice, the Company has sought to stay the Singapore proceedings on the basis that Saudi Arabia is the most appropriate forum to hear the dispute. The outcome of the legal claim is not expected to have a material effect on the Group's financial position.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 26. FAIR VALUE OF ASSETS AND LIABILITIES

### A. Fair value hierarchy

<u>Fair value hierarchy</u>
The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and

Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

There have been no transfers between fair value measurement levels during the financial years ended 31 December 2015 and 2014.

# NOTES TO THE FINANCIAL STATEMENTS

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## 26. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### B. Assets and liabilities measured at fair value

The following table shows an analysis of each class of assets and liabilities carried at fair value at the end of the reporting period:

| | Quoted prices in active markets for identical instruments (Level 1) | Significant observable inputs other than quoted prices (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | |
| **2015** | | | | |
| **Assets measured at fair value** | | | | |
| **Financial assets:** | | | | |
| Available-for-sale financial assets (Note 13) | | | | |
| – Equity investments (quoted) | **29** | **–** | **–** | **29** |
| At 31 December 2015 | **29** | **–** | **–** | **29** |
| **Liabilities measured at fair value** | | | | |
| **Financial liabilities:** | | | | |
| Foreign currency contracts (Note 18) | | | | |
| – At fair value through profit or loss | **–** | **(339)** | **–** | **(339)** |
| At 31 December 2015 | **–** | **(339)** | **–** | **(339)** |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 26. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### B. Assets and liabilities measured at fair value (cont'd)

| | **Quoted prices in active markets for identical instruments (Level 1)** | **Significant observable inputs other than quoted prices (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | |
| **2014** | | | | |
| **Assets measured at fair value** | | | | |
| **Financial assets:** | | | | |
| Available-for-sale financial assets (Note 13) | | | | |
| – Equity investments (quoted) | 29 | – | – | 29 |
| Foreign currency contracts (Note 18) | | | | |
| – At fair value through profit or loss | – | 238 | – | 238 |
| At 31 December 2014 | 29 | 238 | – | 267 |
| **Liabilities measured at fair value** | | | | |
| **Financial liabilities:** | | | | |
| Foreign currency contracts (Note 18) | | | | |
| – At fair value through profit or loss | – | (1,398) | – | (1,398) |
| At 31 December 2014 | – | (1,398) | – | (1,398) |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 26. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

B. Assets and liabilities measured at fair value (cont'd)

| | Quoted prices in active markets for identical instruments (Level 1) | Significant observable inputs other than quoted prices (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Company** | | | | |
| **2015** | | | | |
| **Assets measured at fair value** | | | | |
| **Financial assets:** | | | | |
| Available-for-sale financial assets (Note 13) | | | | |
| – Equity investments (quoted) | **28** | **–** | **–** | **28** |
| At 31 December 2015 | **28** | **–** | **–** | **28** |
| **Liabilities measured at fair value** | | | | |
| **Financial liabilities:** | | | | |
| Foreign currency contracts (Note 18) | | | | |
| – At fair value through profit or loss | **–** | **(339)** | **–** | **(339)** |
| At 31 December 2015 | **–** | **(339)** | **–** | **(339)** |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 26. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### B. Assets and liabilities measured at fair value (cont'd)

| | Quoted prices in active markets for identical instruments (Level 1) $'000 | Significant observable inputs other than quoted prices (Level 2) $'000 | Significant unobservable inputs (Level 3) $'000 | Total $'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **2014** | | | | |
| **Assets measured at fair value** | | | | |
| **Financial assets:** | | | | |
| Available-for-sale financial assets (Note 13) | | | | |
| – Equity investments (quoted) | 28 | – | – | 28 |
| Foreign currency contracts (Note 18) | | | | |
| – At fair value through profit or loss | – | 238 | – | 238 |
| At 31 December 2014 | 28 | 238 | – | 266 |
| **Liabilities measured at fair value** | | | | |
| **Financial liabilities:** | | | | |
| Foreign currency contracts (Note 18) | | | | |
| – At fair value through profit or loss | – | (1,398) | – | (1,398) |
| At 31 December 2014 | – | (1,398) | – | (1,398) |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 26. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### B. Assets and liabilities measured at fair value (cont'd)

Determination of fair value

*Quoted equity instruments (Note 13):* Fair value is determined by direct reference to their bid price quotations in an active market at the end of the reporting period.

*Foreign currency contracts (Note 18):* Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and forward rate curves.

### C. Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Current trade and other receivables (Note 15), trade and other payables (Note 21), and current loans and borrowings (Note 20)

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 26. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### D. Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

The fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value are as follows:

| | | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2015** | | **2014** | | **2015** | | **2014** | |
| | | $'000 | | $'000 | | $'000 | | $'000 | |
| | **Note** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| **Financial assets:** | | | | | | | | | |
| Equity investments, at cost | 13 | **2,503** | ***** | 2,388 | * | **867** | **–** | 867 | – |
| Investment loan | 13 | **28,539** | **@** | 24,067 | @ | **–** | **–** | – | – |
| Other receivables (non-current) | 15 | **–** | **–** | 6,785 | # | **–** | **–** | 6,785 | # |
| **Financial liabilities:** | | | | | | | | | |
| Loans and borrowings (non-current) | 20 | **6,752** | **6,449** | 8,772 | 8,344 | **93** | **93** | – | – |

* Equity investments carried at cost (Note 13)

Fair value information has not been disclosed for the Group's and the Company's investments in equity instruments that are carried at cost because fair value cannot be measured reliably. These equity instruments represent ordinary shares in companies that are not quoted on any market and do not have any comparable industry peer that is listed. In addition, the variability in the range of reasonable fair value estimates derived from valuation techniques is significant. The Group does not intend to dispose of these investments in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

**26. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)**

**D. Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value (cont'd)**

@ Investment loan (Note 13)

Fair value information has not been disclosed for the Group's investment loan that is carried at cost because the fair value cannot be measured reliably. The fair values of these amounts are not determinable as there is no observable input on the incremental lending rate for similar types of borrowing arrangements at the end of the reporting period.

# Non-current other receivables due from associates (Note 15)

Fair value information has not been disclosed for the Group's and the Company's non-current receivables from associates that are carried at cost because fair value cannot be measured reliably. The fair values of these amounts are not determinable as the timing of the future cash flow cannot be estimated reliably because the amounts are repayable only when the cash flow of the borrower permits.

Determination of fair value

*Loans and borrowings (non-current)*

The fair values as disclosed in the table above have been measured under level 2 of the fair value hierarchy, by discounting expected future cash flows at market incremental lending rate for similar types of borrowing arrangements at the end of the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees on the policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is, and has been throughout the current and previous financial year, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The following sections provide details regarding the Group's and the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

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

### (a) *Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including other investments, cash and short-term deposits, and derivatives), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

<u>Exposure to credit risk</u>

At the end of the reporting period, the Group's and the Company's maximum exposure to credit risk is represented by:

- A nominal amount of $4,784,000 (2014: $5,628,000) relating to corporate guarantees provided by the Company to banks on bank facilities granted to a subsidiary company.

- A nominal amount of $149,273,000 (2014: $132,021,000) and $144,012,000 (2014: $120,712,000) relating to bank guarantees provided by the Group and Company respectively for the performance of its operating activities and construction contracts.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (a) *Credit risk (cont'd)*

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables from external parties at the end of the reporting period is as follows:

| | **Group** | | | |
|---|---|---|---|---|
| | **2015** | | **2014** | |
| | $'000 | % of total | $'000 | % of total |
| **By country:** | | | | |
| Singapore | **49,874** | **55** | 124,205 | 72 |
| Saudi Arabia | **17,202** | **19** | 29,304 | 17 |
| United Arab Emirates | **17,377** | **19** | 14,259 | 8 |
| Thailand | **5,183** | **6** | 4,600 | 3 |
| Others | **607** | **1** | 180 | –* |
| | **90,243** | **100** | 172,548 | 100 |

* less than 1%

At the end of the reporting period, approximately:

52% (2014: 97%) of the Group's trade receivables were due from 5 major customers who are in the oil and gas industry located in Singapore, Kingdom of Saudi Arabia and United Arab Emirates.

–* (2014: 4%) of the Group's trade and other receivables were due from related parties while 74% (2014: 65%) of the Company's receivables were balances with related parties.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Group. Cash and short-term deposits, other investments and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 13 (Other investments) and Note 15 (Trade and other receivables).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (b) *Liquidity risk*

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group maintains sufficient liquid financial assets and stand-by credit facilities with at least five different banks. At the end of the reporting period, approximately 29% (2014: 21%) of the Group's loans and borrowings (Note 20) will mature in less than one year based on the carrying amount reflected in the financial statements, respectively.

**Analysis of financial instruments by remaining contractual maturities**

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

| | 2015 $'000 | | | | 2014 $'000 | | | |
|---|---|---|---|---|---|---|---|---|
| | **One year or less** | **One to five years** | **Over five years** | **Total** | **One year or less** | **One to five years** | **Over five years** | **Total** |
| **Group** | | | | | | | | |
| Trade and other payables | **93,487** | **–** | **–** | **93,487** | 143,526 | – | – | 143,526 |
| Forward currency contracts | **339** | **–** | **–** | **339** | 1,398 | – | – | 1,398 |
| Loans and borrowings | **2,804** | **6,752** | **–** | **9,556** | 2,269 | 8,772 | – | 11,041 |
| Total undiscounted financial liabilities | **96,630** | **6,752** | **–** | **103,382** | 147,193 | 8,772 | – | 155,965 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) *Liquidity risk (cont'd)*

| | 2015 $'000 | | | | 2014 $'000 | | | |
|---|---|---|---|---|---|---|---|---|
| | **One year or less** | **One to five years** | **Over five years** | **Total** | **One year or less** | **One to five years** | **Over five years** | **Total** |
| **Company** | | | | | | | | |
| Trade and other payables | **107,870** | **–** | **–** | **107,870** | 161,840 | – | – | 161,840 |
| Forward currency contracts | **339** | **–** | **–** | **339** | 1,398 | – | – | 1,398 |
| Loans and borrowings | **50** | **93** | **–** | **143** | – | – | – | – |
| Total undiscounted financial liabilities | **108,259** | **93** | **–** | **108,352** | 163,238 | – | – | 163,238 |

The table below shows the contractual expiry by maturity of the Group's and the Company's contingent liabilities. The maximum amount of the financial guarantee contracts are allocated to the earliest period in which the guarantee could be called.

| | 2015 $'000 | | | | 2014 $'000 | | | |
|---|---|---|---|---|---|---|---|---|
| | **One year or less** | **One to five years** | **Over five years** | **Total** | **One year or less** | **One to five years** | **Over five years** | **Total** |
| **Group** | | | | | | | | |
| Financial guarantees | **94,544** | **59,513** | **–** | **154,057** | 11,035 | 126,614 | – | 137,649 |
| **Company** | | | | | | | | |
| Financial guarantees | **90,962** | **57,834** | **–** | **148,796** | 4,959 | 121,381 | – | 126,340 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (c) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arise from their loans and borrowings. Its borrowings are at floating rates. The Group manages its interest rate risk on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement of rates.

Sensitivity analysis for interest rate risk

There is no interest rate risk exposure as interest bearing loans and borrowings have been repaid during the year. At the end of the previous reporting period, if SAR interest rates had been 100 basis points lower/higher with all other variables held constant, the Group's profit before tax would have been $94,000 higher/lower, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility as in prior years.

### (d) *Foreign currency risk*

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily SGD, Thai Baht (THB), Saudi Riyals (SAR) and Arab Emirates Dirham (AED). The foreign currencies in which these transactions are denominated are mainly United States Dollars (USD). Approximately 29% (2014: 35%) and 33% (2014: 37%) of the Group's sales and cost of sales are denominated in foreign currencies. The Group's trade receivable and trade payable balances denominated in foreign currencies at the end of the reporting period are disclosed in Note 15 and 21, respectively.

The Group and the Company also hold cash and short-term deposits denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency balances are disclosed in Note 19.

The Group enters into forward currency contracts to hedge the net exposure of its foreign currency denominated financial asset, liabilities and firm commitments. The Group does not enter into these forward currency contracts for speculative purpose. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (d) *Foreign currency risk (cont'd)*

The Group is also exposed to currency translation risk arising from its net investments in foreign operations, including Saudi Arabia, United Arab Emirates, Malaysia, Indonesia, People's Republic of China ("PRC"), India and Thailand. The Group's net investments are not hedged as their currency positions are considered to be long-term in nature.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit/(loss) before tax to a reasonably possible change in the USD exchange rate against the respective functional currencies of the Group entities, with all other variables held constant.

| | **Group** | |
|---|---|---|
| | **2015** | **2014** |
| | $'000 | $'000 |
| | Profit before tax | Profit before tax |
| USD/SGD | | |
| – strengthened 1% (2014: 1%) | **+670** | +553 |
| – weakened 1% (2014: 1%) | **-670** | –553 |

## 28. CAPITAL MANAGEMENT

Capital includes debt and equity items as disclosed in the table below.

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2015 and 31 December 2014.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 28. CAPITAL MANAGEMENT (CONT'D)

As disclosed in Note 23(b), certain subsidiaries of the Group are required by the Saudi Arabian Regulations to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant Saudi Arabia authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiary for the financial years ended 31 December 2015 and 2014.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio at below 50%. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and short-term deposits. Capital includes equity attributable to owners of the Company less the above-mentioned restricted statutory reserve.

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | $'000 | $'000 |
| Loans and borrowings (Note 20) | **9,556** | 11,041 |
| Trade and other payables (Note 21) | **93,487** | 143,526 |
| Less: Cash and short-term deposits (Note 19) | **(118,215)** | (157,057) |
| *Net cash* | **(15,172)** | (2,490) |
| Equity attributable to owners of the Company | **289,149** | 256,409 |
| Less: Statutory reserve | **(300)** | (300) |
| *Total capital* | **288,849** | 256,109 |
| Capital and net debt | **273,677** | 253,619 |
| Gearing ratio | **NM** | NM |

* NM denotes not meaningful

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 29. SEGMENT INFORMATION

***Reporting format***

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

***Business segments***

The Project Services segment provides engineering design, procurement and construction services for plants and associated facilities in oil and gas, petrochemical and pharmaceutical industries.

The Maintenance and Trading segment provides maintenance, engineering and other related services to chemical process industry, including warehousing, trading and logistics services of equipment and products.

***Geographical segments***

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers. Others include countries such as People's Republic of China, Malaysia, Indonesia, South Africa, India and Norway.

***Allocation basis and transfer pricing***

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, income tax and deferred tax assets and liabilities and related expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 29. SEGMENT INFORMATION (CONT'D)

***Business segments***

The following table presents revenue and results information regarding the Group's business segments for the years ended 31 December 2015 and 2014.

| | Project services | | Maintenance and trading | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Segment revenue** | | | | | | | | |
| Sales to external customers | **278,550** | 624,806 | **50,724** | 62,852 | **–** | – | **329,274** | 687,658 |
| Inter-segment sales | **3,732** | 4,810 | **7,963** | 31,619 | **(11,695)** | (36,429) | **–** | – |
| Total revenue | **282,282** | 629,616 | **58,687** | 94,471 | **(11,695)** | (36,429) | **329,274** | 687,658 |
| **Segment result** | **64,065** | 99,679 | **15,688** | 17,545 | **–** | – | **79,753** | 117,224 |
| Unallocated expenses, net | | | | | | | **(30,805)** | (67,051) |
| Finance costs | **(415)** | (1,068) | **–** | – | **–** | – | **(415)** | (1,068) |
| Share of results of associates | **125** | 390 | **–** | – | **–** | – | **125** | 390 |
| Unallocated share of results of associates | | | | | | | **(708)** | (599) |
| Profit before tax | | | | | | | **47,950** | 48,896 |
| Income tax expense | | | | | | | **(2,886)** | (7,921) |
| Profit after tax | | | | | | | **45,064** | 40,975 |

Included in unallocated expenses, net, are a write back of impairment of associate amounting to $6,816,000 (2014: Nil) and government grants amounting to $829,000 (2014: $320,000).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 29. SEGMENT INFORMATION (CONT'D)

***Business segments (cont'd)***

The following table presents assets, liabilities and other segment information regarding the Group's business segments as at and for the years ended 31 December 2015 and 2014.

| | **Project services** | | **Maintenance and trading** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Assets and liabilities:** | | | | | | |
| Segment assets | **258,955** | 366,976 | **74,724** | 81,143 | **333,679** | 448,119 |
| Investment in associates | **214** | 1,277 | **–** | – | **214** | 1,277 |
| Unallocated assets (Note A) | | | | | **15,943** | 9,224 |
| Total assets | | | | | **349,836** | 458,620 |
| Segment liabilities | **168,109** | 287,237 | **16,921** | 25,032 | **185,030** | 312,269 |
| Unallocated liabilities (Note B) | | | | | **11,725** | 17,979 |
| Total liabilities | | | | | **196,755** | 330,248 |
| **Other segment information:** | | | | | | |
| Capital expenditure | **3,107** | 6,285 | **486** | 671 | **3,593** | 6,956 |
| Depreciation and amortisation | **8,720** | 11,570 | **1,162** | 1,243 | **9,882** | 12,813 |

<u>Notes</u>

A Unallocated assets consist of deferred tax assets, tax recoverable and investments in associates amounting to $1,022,000 (2014: $1,052,000), $917,000 (2014: $856,000) and $14,004,000 (2014: $7,316,000) respectively.

B Unallocated liabilities consist of deferred tax liabilities and income tax payable amounting to $2,020,000 (2014: $2,150,000) and $9,705,000 (2014: $15,829,000) respectively.

*<u>Information about major customers</u>*

Revenue from 2 (2014: 2) customers amount to $108,546,000 (2014: $327,309,000), arising from the project services segment.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 29. SEGMENT INFORMATION (CONT'D)

### *Geographical segments*

The following table presents revenue, capital expenditure and certain assets information regarding the Group's geographical segments for the years ended 31 December 2015 and 2014.

| | Singapore | | Thailand | | Middle East | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue:** | | | | | | | | | | |
| Sales to external customers | **186,428** | 432,983 | **38,670** | 41,958 | **97,790** | 202,823 | **6,386** | 9,894 | **329,274** | 687,658 |
| **Other segment information:** | | | | | | | | | | |
| Segment assets | **214,425** | 294,202 | **27,191** | 29,360 | **56,009** | 90,652 | **36,054** | 33,905 | **333,679** | 448,119 |
| Investment in associates | **8,968** | 2,200 | **–** | – | **–** | – | **5,250** | 6,393 | **14,218** | 8,593 |
| Unallocated assets | | | | | | | | | **1,939** | 1,908 |
| Total assets | | | | | | | | | **349,836** | 458,620 |
| Capital expenditure | **2,386** | 3,863 | **938** | 2,567 | **111** | 235 | **158** | 291 | **3,593** | 6,956 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 30. DIVIDENDS

| | Group and Company | |
|---|---|---|
| | **2015** | **2014** |
| | $'000 | $'000 |
| **Declared and paid during the financial year:** | | |
| *Dividends on ordinary shares:* | | |
| – Final exempt (one-tier) dividend for 2014: 2.5 cents (2013: 1.5 cent) per share | **14,188** | 8,513 |
| **Proposed but not recognised as a liability as at 31 December:** | | |
| Dividends on ordinary shares, subject to shareholders' approval at the Annual General Meeting: | | |
| – Final exempt (one-tier) dividend for 2015: 1.5 cents (2014: 2.5 cents) per share | **8,513** | 14,188 |

## 31. EVENTS OCCURRING AFTER THE REPORTING PERIOD

(i) On 3 February 2016, a subsidiary entered into a purchase agreement to acquire a vessel with an unrelated third party for a total purchase consideration of US$15.6 million to strengthen the Group's existing business to complete a value chain offering.

(ii) The Company had applied to stay the proceedings in Singapore in relation to the Suit disclosed in Note 25(d). Subsequently, the High Court dismissed the Stay Application. The Company had filed an application for leave to appeal to the Court of Appeal against the decision.

(iii) At the end of January 2016, a Suit was commenced in the High Court of the Republic of Singapore against the Company and its Board members.

The plaintiff is claiming damages for libel in respect of a statement contained in an SGX announcement made by the Company in relation to the legal claim disclosed in Note 25(d).

The Company will take all measures necessary to resist and refute the claim in the Suit on the bases that inter alia the SGX announcement was justified and was in any event made on an occasion of qualified privilege.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

## 32. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 24 March 2016.

# STATISTICS OF SHAREHOLDINGS

AS AT 10 MARCH 2016

| | | |
|---|---|---|
| Class of shares | : | Ordinary shares |
| Issued and fully paid-up capital | : | S$89,364,213.59 |
| Number of ordinary shares in issue | : | 567,854,000 |
| Number of ordinary shares in issue (excluding treasury shares) | : | 567,518,000 |
| Number (Percentage) of treasury shares | : | 336,000 (0.06%) |
| Voting rights (excluding treasury shares) | : | One vote per share |

## STATISTICS OF SHAREHOLDINGS

| Size of Shareholding | Number of Shareholders | % | Number of Shares | % |
|---|---|---|---|---|
| 1 – 99 | 10 | 0.12 | 166 | 0.00 |
| 100 – 1,000 | 253 | 2.99 | 220,320 | 0.04 |
| 1,001 – 10,000 | 5,161 | 61.06 | 29,199,932 | 5.15 |
| 10,001 – 1,000,000 | 3,007 | 35.57 | 129,453,222 | 22.81 |
| 1,000,001 and above | 22 | 0.26 | 408,644,360 | 72.00 |
| | **8,453** | **100.00** | **567,518,000** | **100.00** |

## SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders as at 10 March 2016)

| | Direct Interest | % | Deemed Interest | % |
|---|---|---|---|---|
| Roger Chia Kim Piow (Note 1) | 28,085,916 | 4.95 | 172,423,528 | 30.38 |
| Jenny Wong Oi Moi (Note 2) | 6,972,896 | 1.23 | 193,536,548 | 34.10 |
| REL Investments Pte Ltd | 165,450,632 | 29.15 | – | – |
| Funderburk Asia-Pac Investments I Limited (Note 3) | 121,350,888 | 21.38 | – | – |
| Oman Investment Fund | – | – | 121,350,888 | 21.38 |

**Notes:**

1. Roger Chia Kim Piow is deemed to have an interest in the shares held by his spouse, Jenny Wong Oi Moi and REL Investments Pte Ltd.

2. Jenny Wong Oi Moi is deemed to have an interest in the shares held by her spouse, Roger Chia Kim Piow and REL Investments Pte Ltd.

3. Funderburk Asia-Pac Investments I Limited is the wholly owned subsidiary of Oman Investment Fund.

# STATISTICS OF SHAREHOLDINGS

AS AT 10 MARCH 2016

### TWENTY LARGEST SHAREHOLDERS

| No. | Name of Shareholders | Number of Shares | % |
|---|---|---|---|
| 1. | REL INVESTMENTS PTE LTD | 165,450,632 | 29.15 |
| 2. | RAFFLES NOMINEES (PTE) LIMITED | 123,362,888 | 21.74 |
| 3. | ROGER CHIA KIM PIOW | 28,085,916 | 4.95 |
| 4. | CHIA KIM CHUA | 22,242,400 | 3.92 |
| 5. | LIM & TAN SECURITIES PTE LTD | 11,229,500 | 1.98 |
| 6. | DBS NOMINEES (PRIVATE) LIMITED | 8,286,900 | 1.46 |
| 7. | DBS VICKERS SECURITIES (SINGAPORE) PTE LTD | 7,414,500 | 1.31 |
| 8. | WONG OI MOI | 6,972,896 | 1.23 |
| 9. | CITIBANK NOMINEES SINGAPORE PTE LTD | 5,848,443 | 1.03 |
| 10. | MAYBANK KIM ENG SECURITIES PTE. LTD. | 4,066,400 | 0.72 |
| 11. | DBSN SERVICES PTE. LTD. | 3,975,900 | 0.70 |
| 12. | UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED | 3,838,200 | 0.68 |
| 13. | OCBC NOMINEES SINGAPORE PRIVATE LIMITED | 2,945,000 | 0.52 |
| 14. | UOB KAY HIAN PRIVATE LIMITED | 2,763,600 | 0.49 |
| 15. | BNP PARIBAS SECURITIES SERVICES SINGAPORE BRANCH | 2,442,500 | 0.43 |
| 16. | DB NOMINEES (SINGAPORE) PTE LTD | 2,271,959 | 0.40 |
| 17. | PHILLIP SECURITIES PTE LTD | 1,647,800 | 0.29 |
| 18. | OCBC SECURITIES PRIVATE LIMITED | 1,242,200 | 0.22 |
| 19. | LIM GECK CHIN MAVIS | 1,234,700 | 0.22 |
| 20 | LEE ENG KHIAN | 1,140,000 | 0.20 |
| | **TOTAL** | **406,462,334** | **71.64** |

### PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

39.14% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Rotary Engineering Limited. (the "Company") will be held at 17 Tuas Avenue 20, Singapore 638828 on Thursday, 21 April 2016 at 10.00 a.m. for the following purposes:

**AS ORDINARY BUSINESS**

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the year ended 31 December 2015 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a final one-tier tax exempt dividend of Singapore 1.5 cents per share for the year ended 31 December 2015 *(2014: Singapore 2.5 cents per share).* **(Resolution 2)**

3. To re-elect the following Directors of the Company retiring pursuant to the Company's Constitution:

| | | |
|---|---|---|
| Mr Badri Narayanan Santhana Krishnan | (Retiring under Article 107) | **(Resolution 3)** |
| Mr Lam Khin Khui | (Retiring under Article 107) | **(Resolution 4)** |
| Mr Keith Tay Ah Kee | (Retiring under Article 109) | **(Resolution 5)** |

*Mr Badri Narayanan Santhana Krishnan will, upon re-election as a Director of the Company, remain as members of the Audit and Remuneration Committees, and will be considered non-independent.*

*Mr Lam Khin Khui will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and Chairman of the Nominating and Remuneration Committees, and will be considered independent.*

*Mr Keith Tay Ah Kee, who was previously re-appointed to hold office until this Annual General Meeting pursuant to Section 153(6) of the Companies Act (Cap 50), which was in force immediately before 3 January 2016, will upon re-election as a Director of the Company, remain as Chairman of the Audit Committee and members of the Nominating and Remuneration Committees, and will be considered independent.*

4. To approve the payment of Directors' fees of S$370,000 for the year ended 31 December 2015 (2014: S$370,000). **(Resolution 6)**

5. To re-appoint Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 7)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

# NOTICE OF ANNUAL GENERAL MEETING

AS SPECIAL BUSINESS

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

7. **Authority to issue shares**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to:

(a) (i) issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

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

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

# NOTICE OF ANNUAL GENERAL MEETING

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Constitution of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)] **(Resolution 8)**

8. **Renewal of Share Purchase Mandate**

That:

(1) for the purposes of Sections 76C and 76E of the Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to make purchases or otherwise acquire issued ordinary shares in the capital of the Company ("Shares") not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the Directors from time to time up to the Maximum Price (as hereafter defined) whether by way of:

(a) market purchase(s) on the SGX-ST and/or any other securities exchange on which the Shares may for the time being be listed and quoted ("Other Exchange"), and/or

(b) off-market purchase(s) (if effected otherwise than on the SGX-ST or, as the case may be, the Other Exchange) in accordance with any equal access scheme(s) as may be determined or formulated by the Directors as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act,

# NOTICE OF ANNUAL GENERAL MEETING

and otherwise in accordance with all other laws and regulations and rules of the SGX-ST as may for the time being be applicable (on a poll taken), be and is hereby authorised and approved generally and unconditionally ("Renewed Share Buy-Back Mandate");

(2) unless varied or revoked by the Company in a general meeting, the authority conferred on the Directors of the Company pursuant to the Renewed Share Buy-Back Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earlier of:

(a) The date on which the next Annual General Meeting of the Company is held, or

(b) The date by which the next Annual General Meeting of the Company is required by law to be held.

In this Resolution:

"Maximum Limit" means that number of issued Shares representing ten per cent (10%) of the total number of issued Shares (excluding Shares held as treasury shares) as at the date of the passing of this Ordinary Resolution unless the Company has effected a reduction of the total number of issued Shares of the Company in accordance with the applicable provisions of the Companies Act, at any time during the Relevant Period, in which event the issued Shares shall be taken to be the total number of issued Shares as altered (excluding any Shares which are held as treasury shares as at that date); and

"Relevant Period" means the period commencing from the date of the extraordinary general meeting at which the renewal of the Share Buyback Mandate is approved and thereafter, expiring on the date on which the next annual general meeting is held or is required by law to be held, which is earlier, after the date of this Ordinary Resolution; and

"Maximum Price", in relation to a Share to be purchased, means the purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) not exceeding:

(i) In the case of a Market Purchase, one hundred and five per cent (105%) of the Average Closing Price; and

(ii) In the case of an Off-Market Purchase, one hundred and ten per cent (110%) of the Average Closing Price,

# NOTICE OF ANNUAL GENERAL MEETING

where:

"Average Closing Price" means the average of the closing market prices of a Share for the five (5) consecutive market days on which the Shares are transacted on the SGX-ST immediately preceding the date of the Market Purchase by the Company, or as the case may be, the date of the making of the offer pursuant to Off-Market Purchases, and deemed to be adjusted in accordance with the rules of the Listing Manual for any corporate action which occurs after the relevant five (5) market day period.

"date of making of the offer" means the date on which the Company announces its intention to make an offer for an Off-Market Purchase, stating therein the purchase price (which shall not be more than the Maximum Price for an Off-Market Purchase) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase;

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

[See Explanatory Note (ii)] **(Resolution 9)**

By Order of the Board

Tan Cher Liang
Secretary
Singapore, 6 April 2016

**Explanatory Notes:**

(i) The Ordinary Resolution 8 in item 7 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

# NOTICE OF ANNUAL GENERAL MEETING

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

(ii) The Company intends to use its internal sources of funds to finance the purchase or acquisition of its Shares authorised under Resolution 9. The amount of financing required for the Company to purchase or acquire its Shares, and the impact on the Company's financial position, cannot be ascertained as at the date of this Notice as these will depend on, inter alia, the number of Shares purchased or acquired and the price at which such Shares were purchased or acquired and whether the Shares purchased or acquired are held in treasury or cancelled. Purely for illustrative purposes, based on the existing issued Shares as at 10 March 2016 ("Latest Practicable Date"), the purchase by the Company of 10% of its issued Shares will result in the purchase or acquisition of 56,751,800 Shares. In the case of market purchases by the Company and assuming that the Company purchases or acquires the 56,751,800 Shares at the Maximum Price of S$0.37 for one Share (being the price equivalent to 105% of the average of the closing market prices of the Shares for the five consecutive market days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of the 56,751,800 Shares is S$20,998,166. The financial effects of the purchase or acquisition of such Shares by the Company pursuant to the proposed Renewed Share Buy-Back Mandate on the unaudited financial statements of the Group for FY2015 are set out in paragraph 7(d) of the Letter to Shareholders dated 6 April 2016.

**Notes:**

1. (a) A member who is not a relevant intermediary, is entitled to appoint one or two proxies to attend and vote at the Annual General Meeting (the "Meeting").

   (b) A member who is a relevant intermediary, is entitled to appoint more than two proxies to attend and vote at the Meeting, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member.

   "Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Cap. 50.

2. A proxy need not be a member of the Company.

3. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 17 Tuas Avenue 20, Singapore 638828 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

# NOTICE OF ANNUAL GENERAL MEETING

**Personal data privacy:**

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

**ROTARY ENGINEERING LIMITED.**
Company Registration No. 198000255E
(Incorporated In The Republic of Singapore)

# PROXY FORM

*(Please see notes overleaf before completing this Form)*

**IMPORTANT:**
1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see note 4 for the definition of "relevant intermediary").
2. For investors who have used their CPF monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely **FOR INFORMATION ONLY**.
3. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, ______________________________

of ______________________________

being a member/members of Rotary Engineering Limited. (the "Company"), hereby appoint:

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

and/or (delete as appropriate)

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

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at 17 Tuas Avenue 20, Singapore 638828 on Thursday, 21 April 2016 at 10.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the Meeting and at any adjournment thereof.

| No. | Resolutions relating to: | Number of Votes For[1] | Number of Votes Against[1] |
|---|---|---|---|
| 1 | Directors' Statement and Audited Financial Statements for the year ended 31 December 2015 | | |
| 2 | Payment of proposed final dividend | | |
| 3 | Re-election of Mr Badri Narayanan Santhana Krishnan as a Director | | |
| 4 | Re-election of Mr Lam Khin Khui as a Director | | |
| 5 | Re-election of Mr Keith Tay Ah Kee as a Director | | |
| 6 | Approval of Directors' fees amounting to S$370,000 for the year ended 31 December 2015 | | |
| 7 | Re-appointment of Ernst & Young LLP as Auditors | | |
| 8 | Authority to issue new shares | | |
| 9 | Renewal of Share Purchase Mandate | | |

[1] If you wish to exercise all your votes "For" or "Against", please tick within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this ____________ day of ______________2016

| Total number of Shares in: | No. of Shares |
|---|---|
| (a) CDP Register | |
| (b) Register of Members | |

______________________________
*Signature of Shareholder(s)*
*or, Common Seal of Corporate Shareholder*

* Delete where inapplicable

**Notes :**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. A member who is a relevant intermediary entitled to attend the meeting and vote is entitled to appoint more than two proxies to attend and vote instead of the member, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member appoints more than two proxies, the appointments shall be invalid unless the member specifies the number of Shares in relation to which each proxy has been appointed.

   "Relevant intermediary" means:

   (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or

   (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 17 Tuas Avenue 20, Singapore 638828 not less than 48 hours before the time appointed for the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

9. As Roger Chia Kim Piow, Chia Kim Chua and Jenny Wong Oi Moi are deemed to be persons acting in concert with the Substantial Shareholder, REL Investments Pte Ltd, by virtue of their shareholdings therein, they are required under Note 3 of Appendix 2 of the Take-over Code to abstain from voting for and/or recommending that shareholders vote in favour of Ordinary Resolution 9 and should accordingly, not be appointed as proxies in respect Ordinary Resolution 9.

**PERSONAL DATA PRIVACY:**

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 6 April 2016.

**General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

# CORPORATE INFORMATION

**BOARD OF DIRECTORS**

- Roger Chia Kim Piow (Chairman & Managing Director)
- William Chia Kim Chua
- Keith Tay Ah Kee
- Lam Khin Khui
- Badri Narayanan Santhana Krishnan
- Jenny Wong Oi Moi

**AUDIT COMMITTEE**

- Keith Tay Ah Kee (Chairman)
- Lam Khin Khui
- Badri Narayanan Santhana Krishnan

**NOMINATING COMMITTEE**

- Lam Khin Khui (Chairman)
- Keith Tay Ah Kee
- Roger Chia Kim Piow

**REMUNERATION COMMITTEE**

- Lam Khin Khui (Chairman)
- Keith Tay Ah Kee
- Badri Narayanan Santhana Krishnan

**COMPANY SECRETARY**

- Tan Cher Liang

**REGISTERED OFFICE**

17 Tuas Avenue 20
Singapore 638828
Tel: (65) 6866 0800
Fax: (65) 6866 0999

**SHARE REGISTRAR**

Boardroom Corporate
& Advisory Services Pte Ltd
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623
Tel: (65) 6536 5355
Fax: (65) 6536 1360

**AUDITORS**

Ernst & Young LLP
Audit Partner –
Mak Keat Meng
(since Financial Year 2015)

# ROTARY GROUP OF COMPANIES

## SINGAPORE
- Rotary Engineering Limited
- Rotary Automation Pte Ltd
- Rotary Electrical & Instrumentation Pte Ltd
- Rotary Electrical Company (Pte) Ltd
- Rotary IMC Pte Ltd
- Rotary Logistics Pte Ltd
- Rotary Mechanical & Construction Co Pte Ltd
- Rotary BNC Pte Ltd
- Rotary-Thai Construction Pte Ltd
- ROIL Pte Ltd
- BuildGlobal Pte Ltd
- Eastlog Holding Pte Ltd
- Innovative Biotech Pte Ltd
- iPromar Pte Ltd
- Jasinusa Automobile Pte Ltd
- Oro Storage Asset Management Pte Ltd
- ShopGlobal Pte Ltd
- Sixty-six Switchgears Co Pte Ltd
- Supermec Pte Ltd

## MALAYSIA
- Rotary MEC (M) Sdn Bhd
- SINGLOBAL (M) Sdn Bhd
- Supermec (M) Sdn Bhd

## INDONESIA
- PT Rotary Engineering Indonesia
- PT Rotary Engineering South East Asia
- PT Marino Logistics

## PEOPLE'S REPUBLIC OF CHINA
- Changchun FAW United Casting Co Ltd

## THAILAND
- Calvert Limited
- Thai Rotary Engineering Public Company Limited

## INDIA
- Sinmec Engineering Services (India) Private Limited

## SAUDI ARABIA
- Rotary Arabia Co Ltd
- Petrol Steel Co Ltd

## UNITED ARAB EMIRATES
- Rotary Engineering Fujairah FZE
- Rotary Engineering Limited – Abu Dhabi
- Rotary Engineering Limited - Fujairah

## VIETNAM
- Supermec Vietnam Co Ltd

## AUSTRALIA
- Rotary Engineering (Australia) Pty Ltd

## MYANMAR
- Rotary Engineering Myanmar Company Limited

ROTARY

**Smart thinking. Safe hands.**

Company's Registration No. 198000255E