YHL
YONGNAM

# COMMITMENT • EXPERTISE • RESULTS

## ANNUAL REPORT 2019

# CORPORATE **PROFILE**

Shaping the city skyline, adding structural and aesthetic value to buildings, laying solid foundations that give people the confidence to build upon – these are the ideals that Yongnam has become synonymous with.

Steel is increasingly the material of choice for the construction of buildings and temporary support for deep excavations. The advantages of using steel over conventional materials such as concrete for building construction are numerous. The higher speed of construction, superior material strength to volume ratio, flexibility in design and aesthetics are just some of the benefits of using steel.

With more than 40 years of experience in steel fabrication, Yongnam excels in adding value to steel construction. The Group's two production facilities in Singapore and Nusajaya, Johor, Malaysia have a total annual production capacity of 84,000 tonnes of steel fabrication. Yongnam utilizes the latest fabrication technologies and design innovation to offer solutions to its clients on a fast-track basis. Our modular strutting system continues to give the Group a strong competitive edge in meeting increasingly stringent design and project requirements in infrastructure and construction projects. With a traceability procedure that meets the requirements of the Singapore Building Construction Authority, our modular strutting system is the first to be certified by an independent auditor for reusability in earth retaining or stabilizing structures.

Yongnam's technical and value engineering solutions for steel fabrication and erection have resulted in increased productivity, improved yield and lower costs. Our in-house pool of experienced and qualified engineers, detailers, technicians, welders, riggers and fitters are consistently adding value to our clients' projects.

Yongnam is an ISO 9001:2015, ISO 14001:2015, ISO 45001:2018 certified company and a certified manufacturer of CE-marked structural steelwork to EN 1090 and EN ISO 3834 for the highest execution class EXC4 for the EU market. It is also an accredited fabricator of the highest S1 category from the Singapore Structural Steel Society and holds A1 and A2 Grades from the Singapore Building and Construction Authority for the categories of General Building and Civil Engineering, respectively. Our Quality, Environmental, Occupational Safety and Health Integrated Management System takes a planned approach towards continuous improvement of our products, processes and services. Yongnam has also achieved a bizSAFE Star Level award.

Moving forward, Yongnam aims to be the partner of choice in providing solutions for the steel construction industry.

# CONTENTS

# CHIEF EXECUTIVE OFFICER'S MESSAGE

**DEAR SHAREHOLDERS,**

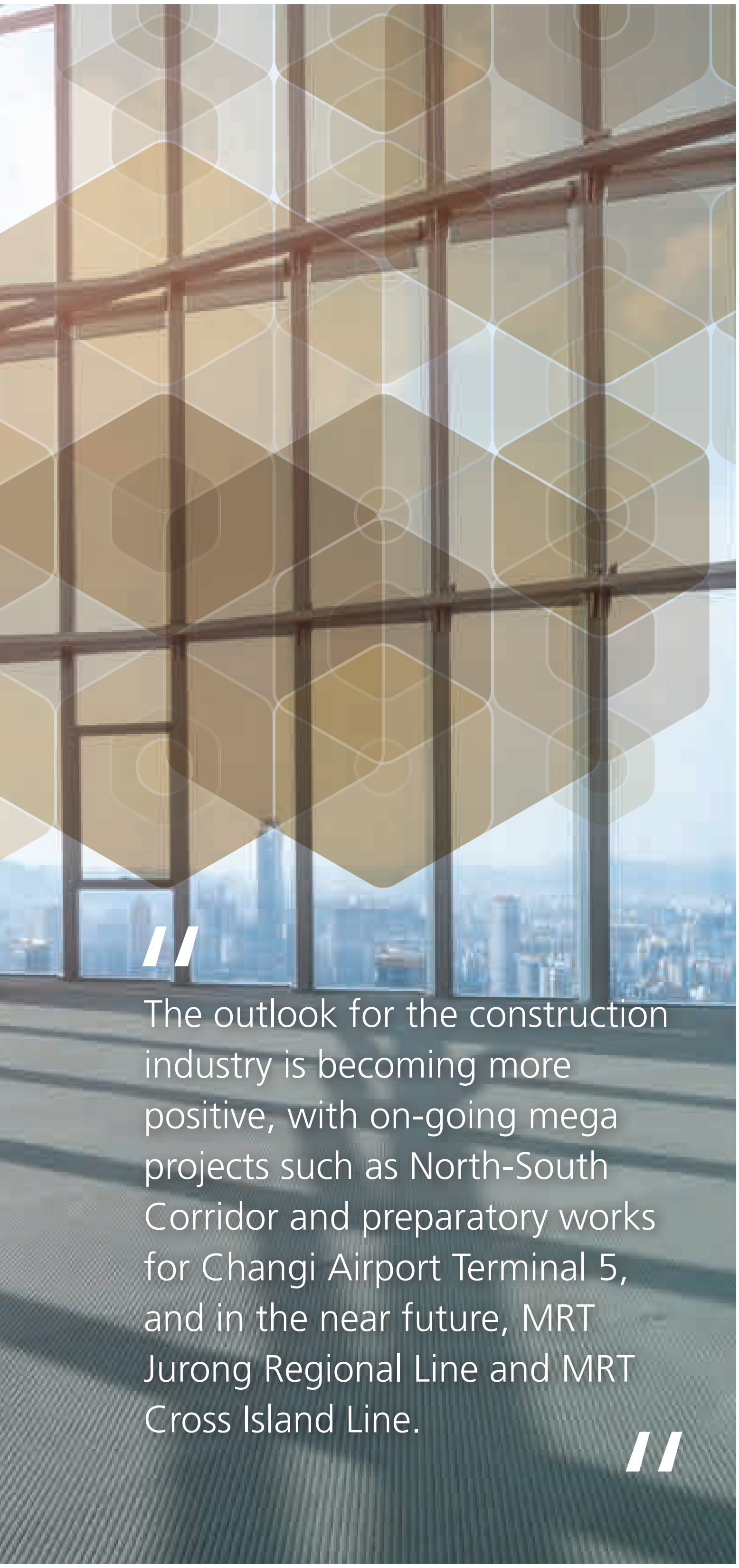
The Group continued to battle a highly challenging business environment in FY2019. The North-South Corridor, for which the Group won a main contract with its joint venture partner in May 2018, progressed slowly. Of a total of eleven main contracts for the underground portion of the expressway, six were awarded in the fourth quarter of 2018, and the final main contract in January 2019. This impacted the flow of related subcontracts awarded for this mega infrastructure development. There was also a dip in the number of sizeable structural steelwork projects launched in FY2019.

Delays and slow starts in projects that we have secured in the preceding years added to the Group's burden. The low level of business activities resulted in significant unabsorbed overheads for the Group, which impacted its gross margin negatively.

Nevertheless, the Group's other projects provided a silver lining, with better margins in FY2019 compared to FY2018. Other projects such as our contract to supply temporary earth retaining systems to infrastructural developments in Australia, and a design and build contract for a 4-storey regional headquarters with a two-storey production facility located at the Tampines Wafer Fab Park, progressed well. The Group's results were also helped by a specialist civil engineering subcontract for infrastructural development in the eastern part of Singapore, as well as a contract for the construction of the roof for a second terminal building for the Bangalore International Airport in India.

Consequently, although the Group's revenue improved by 21.6% to $196.3 million compared to $161.4 million in FY2018, the unabsorbed overheads resulting from a low level of business activities led to a gross loss of $14.8 million, compared to a gross loss of $45.9 million in FY2018.

In view of the challenging environment, the Group embarked on restructuring and cost management in FY2019. These included pay cuts for all management personnel from assistant managers upwards, rationalisation of headcount, as well as the disposal of excess steel materials and slow-moving strutting materials. Pay increments for FY2020 and bonus relating to FY2019 were also frozen. As a result, the Group expects to save up to $10 million per annum in operating cost starting from FY2020. The costs of the restructuring, however, amounted to $17.4 million. An impairment charge on a receivable, as well as the adoption of a new accounting standard (SFRS (I) 16 Leases) which required the recognition of liabilities arising from leases further depressed the Group's FY2019 results.




Consequently, the Group reported a loss before tax of $59.6 million in FY2019, compared to $66.1 million in FY2018. Excluding the restructuring cost and impairment charge, the Group's loss before tax for FY2019 would have been $40.0 million instead.

The Group secured several notable projects in FY2019, bringing its order book to $405 million as at the end of FY2019, compared to $366 million at the end of FY2018. Among the new orders secured are two specialist civil engineering subcontracts for the infrastructure development in the eastern part of Singapore, and another four specialist civil engineering subcontracts for the North-South Corridor development, as well as several structural steel projects such as Surbana Jurong Campus and IOI Development. Overseas, the Group continued to secure new orders in Hong Kong and scored a third project in India, for the construction of the roof of Terminal 2 of the Bangalore International Airport.

While the outlook for the construction industry appears positive, the impact from the recent coronavirus outbreak cannot be underestimated. The Singapore government expects major transport infrastructure projects such as Changi Airport Terminal 5 and new MRT stations to be delayed if the coronavirus outbreak drags on. The Group will continue to look at ways to improve its efficiency in all aspects of its business, and will remain highly conscious in managing its costs.

Following the Singapore government's announcement on the construction of the Jurong Regional Line and Cross Island Line, the impending expansion of the two integrated resorts, as well as the ramping up of works on the North-South Corridor and Changi Terminal 5, we expect a robust pipeline of construction activities in Singapore. Overseas, governments are continuing with infrastructure development and upgrading. The Group's foothold in Hong Kong, Australia and India will provide suitable platforms to capitalise on these opportunities.

Finally, on behalf of the board of directors, I would like to thank our shareholders, staff, clients, bankers, suppliers and subcontractors for their unwavering support through these difficult times.

**SEOW SOON YONG**
Chief Executive Officer

# BOARD OF DIRECTORS

**SEOW SOON YONG**
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
Appointed to the Board as Director and CEO on 19 October 1994
Last re-elected on 26 April 2017

Mr. Seow joined Yongnam in 1978 and acquired diverse experiences in marketing, project management and general management. Appointed as CEO since 1994, Mr. Seow was instrumental in pioneering the development of the Group's Modular Strutting System. Introduced to the industry in 1995, the system is now accepted as the defacto cost-effective temporary support for deep excavation works.

**CHIA SIN CHENG**
EXECUTIVE DIRECTOR & FINANCE DIRECTOR
Appointed to the Board on 8 January 2007
Last re-elected on 30 April 2019

Mr. Chia obtained his Chartered Accountancy qualification from the Institute of Chartered Accountants in England & Wales, UK ("ICAEW"), in 1980. He worked with Ernst & Young in both London and Singapore for seven years, before joining WBL Corporation Ltd for 15 years, where he served as Group Internal Audit Manager, Group Financial Controller and Group General Manager, Finance & Treasury. Mr. Chia joined Yongnam in 2002 as CFO and was instrumental in conceptualising and implementing a restructuring plan for the Group. He left in 2003 to join Singapore Computer Systems Ltd as CFO, and returned to Yongnam in 2006. Mr. Chia attended the Advance Management Program at Harvard Business School and is a member of the ICAEW and Institute of Singapore Chartered Accountants.

**SIAU SUN KING**
EXECUTIVE DIRECTOR
Appointed to the Board on 19 October 1994
Last re-elected on 26 April 2017

Mr. Siau is a founding partner of the Yongnam Group. A Mechanical Engineering graduate from the Ngee Ann Polytechnic, Mr. Siau has held diverse responsibilities within the Group. With extensive experience in mechanical engineering, he currently oversees the Group's operations in Malaysia as well as the Mechanical Engineering Division.

**SEOW SOON HEE**
EXECUTIVE DIRECTOR
Appointed to the Board on 19 October 1994
Last re-elected on 30 April 2018

Mr. Seow joined the Group in 1977. Starting his career with the Group in its Mechanical Engineering division, Mr. Seow expanded his portfolio to include accounting, finance and administration. He graduated from the Nanyang University, Singapore, with a Bachelor of Arts degree. Mr. Seow explores business opportunities for the Group in Combined Cycle Power Plant equipment, such as air intake and bypass systems, air cooled condenser and other plant related equipment, as well as business opportunities in solar and waste-to-energy sectors.

**LIM GHIM SIEW, HENRY**
NON-EXECUTIVE & INDEPENDENT DIRECTOR
Appointed to the Board on 15 October 2002
Last re-elected on 30 April 2019

Mr. Lim is the owner of law firm G. S. Lim & Partners, conducting mainly corporate, property and insurance claims work. He is also actively involved in the Law Society's Criminal Legal Aid Scheme. Mr. Lim obtained his law degree from the University of London in 1988 and was called to the English Bar in 1992. He is a member of the Honorable Society of Lincoln's Inn. Mr. Lim chairs the Remuneration Committee and is a member of the Audit Committee. He is also the chairman of a locally based shipping company.

**GOON KOK LOON**
NON-EXECUTIVE & LEAD INDEPENDENT DIRECTOR
Appointed to the Board on 15 July 2003
Last appointed on 30 April 2018

Mr. Goon was Deputy Group President and President (International Business Division) of PSA Corporation Ltd, and has more than 30 years of experience in corporate management, operations and administration. He graduated from University of Liverpool, UK with 1st class honours in Engineering (Electrical), and attended the Post-graduate Study Program at the Massachusetts Institute of Technology, USA. Mr. Goon chairs the Audit Committee and is a member of the Remuneration and Nominating Committees. He also sits on the boards of Venture Corporation Ltd and Regal International Group Ltd.

**LIEW JAT YUEN, RICHARD**
NON-EXECUTIVE & INDEPENDENT DIRECTOR
Appointed to the Board on 23 January 2006
Last re-elected on 30 April 2018

Professor Liew is an expert in steel structures. He graduated from the National University of Singapore ("NUS") with a 1st class Honours Degree in 1986 and a Master of Engineering Degree in 1988, and from Purdue University, USA, with a PhD in 1992. He is a registered Professional Engineer in Singapore, an ASEAN Chartered Professional Engineer and a Chartered Engineer in the UK. He is a fellow of the Academy of Engineering in Singapore, an Honorary Fellow and a Past President of the Singapore Structural Steel Society. He provides specialist advice to the design and construction of high-rise, large-span and deep excavation support structures and has served on numerous committees on material specifications and design practices in Singapore and the region. Currently a Professor in the Department of Civil and Environmental Engineering at NUS, he is a member of the Audit Committee and the Nominating Committee.

**TAN ENG KIAT, DOMINIC**
NON-EXECUTIVE & INDEPENDENT DIRECTOR
Appointed to the Board on 3 March 2008
Last appointed on 30 April 2019

Mr. Tan has over 40 years of experience in business development, corporate management and management of large civil engineering, building, industrial and environmental engineering projects throughout the Asia Pacific region. He started his career as a Trainee Quantity Surveyor with Gammon (Malaya) Ltd in 1966 and progressed to the rank of Executive Director. He joined United Engineers Group in 1993 and was promoted to Managing Director in 2000, where he spearheaded the company's regionalisation drive and business activities in West Malaysia, Brunei, Indonesia, Vietnam and the Middle East. This was achieved through his strong linkages, associations and joint ventures with leading international companies. Mr. Tan retired from the United Engineers Group in 2007. Mr. Tan chairs the Nominating Committee and is a member of the Remuneration Committee. He also sits on the board of Sitra Holdings (International) Ltd.

# KEY EXECUTIVES

## TAKEDAGAWA HIROYUKI
CHIEF OPERATIONS DIRECTOR

Mr. Takedagawa joined Yongnam in 2013. He has more than 40 years of experience in project management and marketing after an illustrious career with a Japanese construction company. He has overseen many mega projects in Japan, Singapore, Hong Kong, Taiwan, Vietnam, Cambodia, Sri Lanka, Thailand, Romania, Bulgaria, Indonesia, Malaysia and the Middle East. Notable projects managed by Mr. Takedagawa include the Tokyo Trans Bay Highway in Japan, KCRC East Rail Extension in Hong Kong, Tangguh LNG Project in Papua New Guinea and Marina Coastal Expressway in Singapore. He graduated from Nagasaki University in Japan, with a Bachelor of Science degree in Civil Engineering.

## CHELVADURAI HARENDRAN
ENGINEERING DIRECTOR

Mr. Harendran joined Yongnam in 1997. He has close to 50 years of experience in the building and construction industry, having started his career in 1971 with Ove Arup & Partners in London as a Design Engineer, and transferred to their Singapore office in 1975. He joined Woh Hup Pte Ltd in 1979 as Chief Engineer (Design) and Head of Design Department. In 1984 he joined Low Keng Huat (S) Ltd as Project Manager and managed several key projects including New Tech Park and Keppel Distripark. Since joining Yongnam Mr. Harendran has been responsible for the installation of several notable structural steel projects including Suvarnabhumi International Airport, Ion Orchard, Delhi International Airport T3, Gardens by The Bay, Mumbai International Airport T2, Singapore Sports Hub, Marina One and Jewel Changi Airport. Mr. Harendran graduated in 1971 with a Bachelor of Science degree from University College, London, and is a member of the Institution of Civil Engineers, a Chartered Engineer in the UK and a Professional Engineer in Singapore.

## SEOW SOON HOCK
PRODUCTION DIRECTOR

Mr. Seow joined Yongnam in 1978 and has more than 30 years of experience in production, production planning and logistics management. He is responsible for all fabrication, scheduling, allocation of resources and progress tracking as well as providing technical assistance and innovative methods to engineering design.

## YANG EUN KYU
DIRECTOR-TECHNICAL (CIVIL)

Mr. Yang joined Yongnam in 2015. He has close to 40 years of experience in project management and marketing with a Korean construction company. He has completed many mega projects in South Korea, Singapore, Hong Kong, India and the Middle East, including the MRT Northeast Line, Marina Coastal Expressway and Kallang Paya Lebar Expressway in Singapore, MTR (Shatin-Central) in Hong Kong, Seoul Metro in South Korea, and a sewerage project in the Middle East. Mr. Yang graduated from Hanyang University, Seoul, South Korea in 1980, with a Bachelor of Science degree in Civil Engineering.

## CHEONG HOCK CHOON
PROJECT DIRECTOR

Mr. Cheong joined Yongnam in 1978 and has more than 40 years of experience in steel structure and infrastructure projects. From 1999 onwards he was seconded to Hong Kong to manage the Group's overseas operations which included managing projects in Malaysia, Brunei, Middle East and Hong Kong. Mr. Cheong currently heads the Group's operations in Hong Kong.

## KOH ENG SENG
DIRECTOR-SPECIALIST CIVIL ENGINEERING

Mr. Koh joined Yongnam in 1981 and has more than 30 years of experience in infrastructure projects. He was instrumental in the successful completion of several major MRT inclusive of Down Town Line, Circle Line, and vehicle tunnel projects such as the Kallang Paya Lebar Expressway and the Marina Coastal Expressway, which involved the construction of a cofferdam in the open sea at Marina Bay. Some of the notable projects, currently managed by Mr. Koh include Changi Airport T5 early works, MRT Circle Line 6 and MRT Thomson-East Coast Line. He is also involved in managing projects in Melbourne, Australia, including Melbourne Metro and West Gate Tunnel Project.

## TEO SHENG KIONG
GROUP FINANCIAL CONTROLLER

Having served Yongnam from 2002 to 2004, Mr. Teo returned in 2007. He has worked in listed companies such as Inter-Roller Engineering Ltd and Singapore Computer Systems Ltd and has regional exposure to countries including China and Malaysia. Mr. Teo graduated from Lancaster University, UK, with 1st Class Honours in Accounting & Finance in 1994.

# OPERATIONS REVIEW

## NORTH-SOUTH CORRIDOR N103

The scope of work for the North-South Corridor contract N103 includes the design and construction of 640 metres of twin, three-lane vehicular tunnels, the underpinning of an existing expressway flyover, a new facility building, as well as an entrance ramp and an exit ramp. This contract was secured by the Group's 30%-owned joint venture with Leighton Asia, a leading international construction company with headquarters in Australia. Work has commenced in the second half of 2019 and is expected to complete by 2026.

## INFRASTRUCTURAL DEVELOPMENTS IN MELBOURNE

The scope of work for the Group's first foray into the Australian market covers the supply of steel struts and strutting components for Temporary Earth Retaining Systems used in infrastructural developments in Melbourne, Victoria, Australia. The contract is expected to be completed in 2021.

## THOMSON-EAST COAST LINE

The Thomson-East Coast Line ("TEL"), a 43km joint line between the Thomson Line and the Eastern Region Line, will add 32 new stations to the existing rail network. With seven interchange stations, the TEL will connect to the East-West Line, North-South Line, North-East Line, Circle Line and the Downtown Line, cutting commuters' travelling time to the Central Business District and to the northern part of Singapore. Three stations on the TEL – Woodlands North, Woodlands and Woodlands South, opened on 31 Jan 2020. When fully operational in 2024, the 32 stations on the TEL are expected to serve about 500,000 commuters daily in the initial years, rising to one million commuters daily in the longer term.

Yongnam secured a total of nine subcontracts for the TEL, more notably Napier Station as well as Marina South Station and tunnels. The scope of work for Napier Station includes supply, installation and dismantling of steel struts, while the work for Marina South Station and tunnels covers supply, installation and dismantling of a pipe pile cofferdam system, steel struts, as well as decking works. The subcontracts are targeted for completion progressively by 2021.

## INFRASTRUCTURAL DEVELOPMENT IN EASTERN SINGAPORE

The Group won two subcontracts to undertake specialist civil engineering works encompassing the design, supply, installation and dismantling of temporary earth retaining works for a mega infrastructural development in the eastern part of Singapore. The subcontracts are expected to be progressively completed by 2023.

## AAC HEADQUARTERS

The Group won a contract for the design and build of a four-storey regional headquarters with mezzanine offices and a two-storey production facility for AAC Optics Solutions Pte. Ltd., located at the Tampines Wafer Fab Park at Tampines Industrial Crescent. The main contract works will include full design consultancy as well as civil & structural, architectural, and mechanical & electrical works, which was completed by the first quarter of 2020.

## JTC LOGISTICS HUB

JTC Logistics Hub ("JLH"), located at Gul Circle, is a high-rise multi-tenanted development that houses container depots, warehouses and a heavy vehicle park. JLH is designed to cut traveling time incurred by logistics operators who currently have to deal with container depots, warehouses and heavy vehicle parks located in different places across Singapore, thereby contributing to cost savings and improving operational efficiency. About 70 inspection bays for 40-foot containers and queuing space for more than 40 vehicles have been allocated in the design of the JLH, targeted at reducing waiting time for vehicles and minimizing spillover of vehicle queues outside the development.

Yongnam's scope of work involves the fabrication and erection of balance structural steelwork, as well as the installation of an alternative steel system for JLH. The sub-contract is expected to be completed in 2020.

## INDUSTRIAL DEVELOPMENT IN SINGAPORE

The industrial development project, located at the junction of Woodlands Avenues 4 and 9, sits on a site of about 30,000 sqm and will have a nine-storey light industrial and commercial building, with one level of basement car park, two roof floors and a covered walkway to Republic Polytechnic. Yongnam's scope of work involves the supply, fabrication, delivery and erection of structural steelwork for this development. This project is expected to complete in 2020.

## BANGALORE INTERNATIONAL AIRPORT

The Group won a subcontract in India for the supply, fabrication and installation of structural steelwork for the roof of Terminal 2 of Kempegowda International Airport, also known as Bangalore International Airport. This is Yongnam's third project in India, after the Delhi International Airport and Mumbai International Airport, and it is expected to be completed in the second half of 2020.

## WOODLANDS HEALTH CAMPUS

Woodlands Health Campus will be a 1,800 bedded facility comprising an acute hospital, a community hospital, outpatient clinics and a long-term care facility within a 7.7 hectare site located at Woodlands Drive 17 and Woodlands Avenue 12. Yongnam's scope of work involves the supply, fabrication, delivery and erection of structural steelwork. The contract is expected to be completed in 2021.

## SURBANA JURONG CAMPUS

Surbana Jurong Campus is a 68,915 sq m development by Surbana Jurong (SJ), one of the largest Asia-based urban and infrastructure consulting firms, that will be built in Jurong Innovation District (JID); a vibrant ecosystem of enterprises in advanced manufacturing, urban solutions and smart logistics. The Campus can accommodate up to 4,000 employees and will be completed by 2021. Yongnam won a subcontract for the design, supply, fabrication and installation of structural steelwork for the development.

# OPERATIONS REVIEW

## SHATIN TO CENTRAL LINK

Shatin to Central Link ("SCL") is a strategic railway line of the Hong Kong MTR that stretches from Tai Wai to Admiralty, connecting several existing railway lines and passing through multiple districts in Hong Kong. It will serve areas in East Kowloon that currently do not have any MTR service, which include Kowloon City, To Kwa Wan, Ma Tau Wai and Ho Man Tin, as well as strengthen the linkage between the New Territories and Hong Kong Island. Convenient interchanges with other railway lines will also facilitate traveling across the New Territories.

The Group is currently working on four subcontracts under the SCL project which involves the design, supply, installation and subsequent dismantling of steel struts at three MTR stations, namely Sung Wong Toi, To Kwa Wan and Diamond Hill Station, including the tunnels and entrances, as well as the provision of temporary shoring and working platform for the cut and cover portion of the SCL Cross Harbour Tunnel. The subcontracts are expected to be completed progressively by 2020.

## TSEUNG KWAN O – LAM TIN TUNNEL

The Tseung Kwan O – Lam Tin Tunnel aims to improve the traffic conditions within Kwun Tong District and relieve the extra traffic load anticipated from the future development of the district. Following the project's completion, part of the existing traffic between Tseung Kwan O and Eastern Harbour Crossing can utilise the Tseung Kwan O – Lam Tin Tunnel without routing through Tseung Kwan O Road and Lei Yue Mun Road of the Kwun Tong District.

The Group won a subcontract to supply, fabricate, install and dismantle walings and struts for reinforced concrete structural works of the U-Trough and P2 Underpass in the reclamation area. This subcontract is expected to be completed by 2022.

## CENTRAL KOWLOON ROUTE – YAU MA TEI EAST

Central Kowloon Route ("CKR") is a 4.7 km, dual 3-lane trunk road linking Yau Ma Tei Interchange in West Kowloon with the road network at Kai Tak Development and Kowloon Bay in East Kowloon, forming a trunk route through Central Kowloon. CKR will provide an alternative express route to relieve the traffic congestion on the major east-west corridors, which will significantly reduce travel time. After the completion of CKR, the travel time between West Kowloon and Kowloon Bay would take around 5 minutes, representing a reduction of about 25 minutes. The improved traffic conditions will also benefit areas adjacent to CKR including Wong Tai Sin, Ho Man Tin and Kowloon City.

The Group will supply, install and dismantle the temporary earth retaining systems and traffic decking for this project. The subcontract is expected to be completed in 2024.

# FINANCIAL REVIEW

Group revenue in FY2019 increased by 21.6% to $196.3 million, compared to $161.4 million in FY2018. Contributions from Specialist Civil Engineering and Design and Build segments were higher, while contribution from Structural Steelwork segment fell.

Segmental Performance:

- Specialist Civil Engineering: Revenue increased by 44.7% to $93.0 million in FY2019, compared to $64.3 million in FY2018. Key contributors were Singapore Changi Terminal 5 project and infrastructural projects in Australia. Revenue from projects for the MRT Thomson Line and Circle Line also contributed to the increase;
- Design and Build: Revenue increased by 134.9% to $26.0 million in FY2019, compared to $11.1 million in FY2018, mainly due to contributions from a four-storey regional headquarters with a 2-storey production facility located at Tampines Industrial Crescent;
- Structural Steelwork: Revenue decreased by 13.4% to $70.7 million in FY2019, compared to $81.7 million in FY2018, due mainly to the substantial completion of Jewel Changi Airport, Outram Community Hospital and Evonik methionine plant projects at the end of FY2018. Key contributors to revenue in FY2019 included JTC Logistics Hub and JTC North Coast Development projects in Singapore, and the Bangalore International Airport Terminal project in India.

Geographically, projects in Singapore accounted for 70.5% of total revenue, compared to 76.4% in FY2018. Projects in the rest of the Asia-Pacific countries accounted for the remaining 29.5%.

While better margins were earned from projects in FY2019 compared to FY2018, the improvement was eroded by unabsorbed overheads resulting from low levels of strutting and fabrication activities in Singapore and Hong Kong. Consequently, the Group reported a gross loss of $14.8 million in FY2019, compared to a gross loss of $45.9 million in FY2018.

The increase in general and administrative expenses from $12.7 million in FY2018 to $33.9 million in FY2019 was mainly due to an impairment of a trade receivable, operational restructuring costs and loss on disposal of strutting assets, which totalled $19.6 million. Finance costs increased from $8.0 million to $12.9 million mainly due to notional interest on lease liabilities, arising from the adoption of new SFRS (I) 16 Leases accounting standard, and convertible bond interest. Depreciation expenses increased due to the recognition of Right-of-use assets upon adoption of SFRS (I) 16 Leases.

As a result, the Group narrowed its loss before tax from $66.1 million in FY2018 to $59.6 million in FY2019. Excluding the operational restructuring costs, loss on disposal of strutting assets and the impairment charge on a trade receivable, the Group's loss before tax would have been lower at $40.0 million, compared to a loss before tax of $66.1 million in FY2018.

The Group's net gearing is higher at 0.89 times as at 31 December 2019, compared to 0.51 times as at 31 December 2018, mainly due to the adoption of new SFRS (I) 16 lease accounting standard which brought the off-balance sheet operating leases to the balance sheet and issuance of convertible bonds. Net cash flows from operating activities improved from a negative $21.9 million in FY2018 to a positive $29.1 million in FY2019. Net cash flows from financing activities were negative $20.0 million due mainly to repayment of borrowings. The Group's cash and cash equivalents at the end of FY2019 was $9.1 million, down from $14.3 million at the end of FY2018.

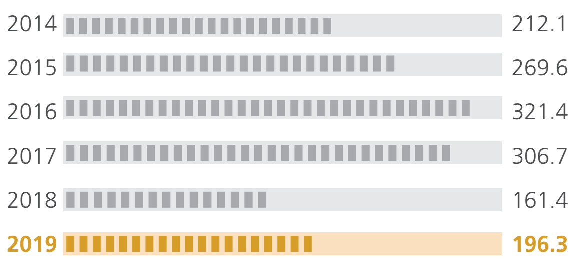
As at 31 December 2019, the Group's order book stood at $405 million, compared to $366 million as at 31 December 2018.

# FINANCIAL HIGHLIGHTS

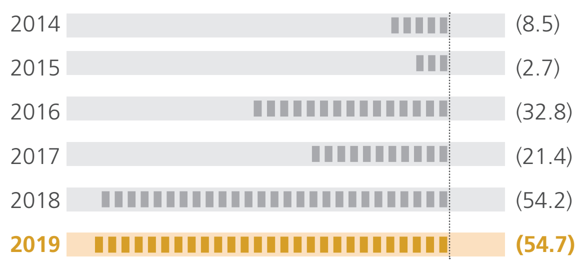
| | 2019 $'000 | 2018 $'000 | 2017 $'000 | 2016 $'000 | 2015 $'000 | 2014 $'000 |
|---|---|---|---|---|---|---|
| **PROFIT AND LOSS ACCOUNT** | | | | | | |
| Revenue | 196,273 | 161,449 | 306,679 | 321,378 | 269,618 | 212,083 |
| Loss before taxation | (59,564) | (66,053) | (24,676) | (38,133) | (4,138) | (19,009) |
| Loss after taxation | (54,703) | (54,209) | (21,403) | (32,793) | (2,695) | (8,491) |
| Loss Per Share (Basic) (Cents) | (10.29) | (9.76) | (3.50) | (7.99) | (1.05) | (2.68) |
| **BALANCE SHEET** | | | | | | |
| Property, plant and equipment | 268,677 | 314,804 | 327,479 | 314,203 | 307,410 | 320,997 |
| Other non-current assets | 53,573 | 60 | – | 1,500 | 1,608 | 1,608 |
| Net current assets[1] | 47,485 | 71,784 | 81,012 | 110,207 | 148,848 | 175,034 |
| | 369,735 | 386,648 | 408,491 | 425,910 | 457,866 | 497,639 |
| Shareholders' equity | 199,850 | 253,813 | 304,290 | 299,544 | 296,728 | 300,053 |
| Non-controlling interest | (9,097) | (8,149) | (4,959) | (511) | 645 | – |
| Short and long-term borrowings | 178,982 | 140,069 | 96,392 | 114,066 | 142,404 | 178,873 |
| Deferred taxation | – | 915 | 12,768 | 12,811 | 18,089 | 18,713 |
| | 369,735 | 386,648 | 408,491 | 425,910 | 457,866 | 497,639 |
| NAV per share (cents) | 38.24 | 48.57 | 58.23 | 63.05 | 93.89 | 94.72 |

**Note:**
(1) In arriving at "Net current assets", current borrowings, hire purchase creditors and lease liabilities have been excluded.

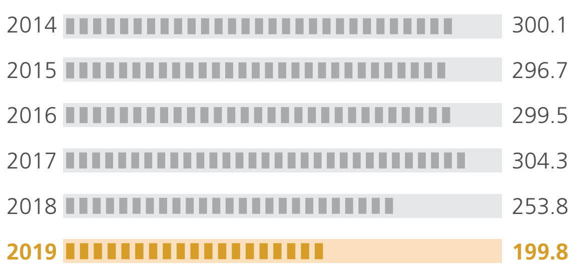
**REVENUE** ($ MILLION)




**LOSS AFTER TAX** ($ MILLION)




**SHAREHOLDERS' EQUITY** ($ MILLION)



# CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") of Yongnam Holdings Limited (the "Company") is committed to maintaining high standards of corporate governance, business integrity and professionalism within the Company and its subsidiaries (the "Group") to protect the interests of all its stakeholders and to promote investors' confidence and support.

This report describes the Group's ongoing efforts in the financial year ended 31 December 2019 ("FY2019") in keeping pace with the evolving corporate governance practices and complying with the Code of Corporate Governance 2018 (the "Code"). The Company has adopted and complied, wherever feasible, relevant and practicable to the Group, with the principles and guidelines set out in the Code, except where otherwise stated. The Company is also guided by the voluntary Practice Guidance which was issued to complement the Code and which sets out best practice standards for companies. The Board will continue to improve its practices with developments by enhancing its principles and framework.

## BOARD MATTERS

### The Board's Conduct of its Affairs

***Principle 1: The Company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the Company.***

The Board of Directors is primarily responsible for overseeing the management of the business affairs, corporate affairs and the overall performance of the Group. Board members are expected to act in good faith and exercise independent judgment in the best interests of the Group. A code of conduct and ethics has also been put in place by the Board to ensure proper accountability within the Company. Directors facing conflict of interest has recused himself from discussions and decisions involving the issues of conflict.

The Board's key responsibilities include providing leadership and guidance to the Management on corporate strategy and business directions, evaluation of internal controls, risk management, financial reporting and compliances.

The Board recognises that its principal duties include:

- Setting the strategic directions and the long-term goals of the Group and ensuring that adequate resources are available to meet these objectives;
- Reviewing and approving corporate plans, annual budgets, investment proposal and merger & acquisition proposals of the Group;
- Reviewing and evaluating the adequacy and integrity of the Group's internal controls, compliance, risk management and financial report systems;
- Reviewing and monitoring management performance towards achieving organisational goals;
- Overseeing succession planning for the Management;
- Setting corporate values and standards for the Group to ensure that the obligations to shareholders and other stakeholders are understood and met;
- Ensuring accurate and timely reporting in communication with shareholders; and
- Considering sustainability issues including environmental and social factors in the Group's strategic formulation.

The Board's approval is specifically required for matters such as corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposal of assets and release of the Group's quarterly and full-year financial results.

# CORPORATE GOVERNANCE REPORT

The Management is responsible for day-to-day operations/administration of the Group and they are accountable to the Board. The Board has delegated specific responsibilities to the committees of the Board, namely, the Nominating Committee ("NC"), the Remuneration Committee ("RC") and the Audit Committee ("AC") (collectively, the "Board Committees") to assist the Board in carrying out and discharging its duties and responsibilities efficiently and effectively, and reporting back to the Board. These Board Committees are made up of, and each chaired by Independent Director. Each Board Committee has its own specific Terms of Reference which clearly set out its objectives, scope of its duties and responsibilities, rules and regulations, and procedures governing the manner in which it is to operate and how decisions are to be taken.

The Board meets on a quarterly basis to approve, among others, announcements of the Group's quarterly and full-year financial results. Ad hoc meetings are also convened to discuss and deliberate on urgent substantive matters or issues. The Board may also have informal discussions on matters requiring urgent attention which would then be formally approved by circular resolutions in writing. The Constitution of the Company provides for the Board to convene meetings via telephone conferencing and electronic means in the event when Directors were unable to attend meetings in person.

The attendance of the Directors at meetings of the Board and Board committees, as well as the frequency of such meetings during FY2019 is tabulated below:

| | Board | Audit Committee | Nominating Committee | Remuneration Committee |
|---|---|---|---|---|
| No. of meetings held | 4 | 4 | 1 | 1 |
| No. of meetings attended by respective directors | | | | |
| **Executive Directors:** | | | | |
| 1. Seow Soon Yong (Chief Executive Officer) | 4 | – | – | – |
| 2. Siau Sun King | 4 | – | – | – |
| 3. Seow Soon Hee *(retiring at the forthcoming AGM to be held on 29 June 2020)* | 4 | – | – | – |
| 4. Chia Sin Cheng | 4 | – | – | – |
| **Independent Directors:** | | | | |
| 5. Goon Kok Loon | 4 | 4 | 1 | 1 |
| 6. Lim Ghim Siew, Henry | 2 | 2 | – | 1 |
| 7. Liew Jat Yuen, Richard | 4 | 4 | 1 | – |
| 8. Tan Eng Kiat, Dominic | 4 | – | 1 | 1 |

The Board ensures that incoming new Directors are given comprehensive and tailored induction on joining the Board including onsite visits, if necessary, to get familiarised with the business of the Group and corporate governance practices upon their appointment and to facilitate the effectiveness in discharging their duties. Newly appointed Directors will be provided a formal letter setting out their duties and obligations. They will be given briefings by the Management on the business activities of the Group and its strategic directions as well as its corporate governance practices. A new Director who has no prior experience as a director of an issuer listed on the SGX-ST must also undergo mandatory training in his roles and responsibilities as prescribed by the SGX-ST.

Directors are provided with opportunities to develop and maintain their skills and knowledge at the company's expense. All Directors are encouraged to constantly keep abreast of developments in regulatory, legal and accounting frameworks that are of relevance to the Group through the extension of opportunities for participation in the relevant training courses, seminars and workshops as relevant and/or applicable. During FY2019, some Directors have attended third party running programmes to enhance their knowledge.

# CORPORATE GOVERNANCE REPORT

Management recognises the importance of ensuring the flow of complete, adequate and timely information to the Directors on an ongoing basis to enable them to make informed decisions to discharge their duties and responsibilities. To allow Directors sufficient time to prepare for the meetings, all Board and Board Committee papers are distributed to the Directors in advance of the meetings. Any additional material or information requested by the Directors is promptly furnished.

Management papers are circulated to the Board every quarter to keep the Board updated on the key matters concerning the Group. Employees who can provide additional insight into matters to be discussed will be present at the relevant time during the Board and Board Committee meetings. In order to keep Directors abreast of the Group's operations, the Directors are also updated on initiatives and developments on the Group's business as soon as practicable and/or possible and on an on-going basis.

To facilitate direct access to the Management, Directors are also provided with the names and contact details of the management team. The Directors also have separate and independent access to the Company Secretary through e-mail, telephone and face-to-face meetings. The Company Secretary is responsible for, among other things, ensuring that the Board's procedures are observed and the Constitution of the Company, relevant rules and regulations, including requirements of the Securities and Futures Act, Companies Act and SGX-ST Listing Manual ("**Listing Manual**") are complied with. She also assists the Chairman and the Board in implementing and strengthening corporate governance practices and processes, with a view to enhancing long-term shareholder value.

The role of the Company Secretary is, inter alia, advising the Board on all governance matters and ensuring that all Board procedures are followed. The Company Secretary assists the Chairman in ensuring good information flows within the Board and its Board Committees and between senior management and the Independent Directors. The Company Secretary attends and prepares minutes for all Board and Board Committee meetings. As secretary for all Board Committees, the Company Secretary assists in ensuring coordination and liaison between the Board, the Board Committees and the Management. The Company Secretary assists the Chairman of the Board, the Chairman of Board Committees and the Management in the development of the agendas for the various Board and Board Committee meetings. The appointment and the removal of the Company Secretary are subject to the Board's approval. The Board has a process for Directors, either individually or as a group, in the furtherance of their duties, to seek independent professional advice, where appropriate, at the expense of the Company.

**Board Composition and Guidance**

***Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the Company.***

The Board currently has eight (8) Directors comprises four (4) Independent Directors and four (4) Executive Directors. The current members of the Board and their membership on the Board Committees of the Company are as follows:

| Name of Directors | Board Membership | Audit Committee | Nominating Committee | Remuneration Committee |
|---|---|---|---|---|
| Seow Soon Yong | Managing Director & Chief Executive Officer | – | – | – |
| Chia Sin Cheng | Executive Director & Finance Director | – | – | – |
| Seow Soon Hee *(retiring at the forthcoming AGM to be held on 29 June 2020)* | Executive Director | – | – | – |
| Siau Sun King | Executive Director | – | – | – |
| Goon Kok Loon | Lead Independent Director | Chairman | Member | Member |
| Lim Ghim Siew, Henry | Independent Director | Member | – | Chairman |
| Tan Eng Kiat, Dominic | Independent Director | – | Chairman | Member |
| Liew Jat Yuen, Richard | Independent Director | Member | Member | – |

# CORPORATE GOVERNANCE REPORT

The Board's composition is to be reviewed annually by the NC to ensure that the Board has the appropriate mix of expertise and experience. Mr Seow Soon Hee has decided to retire from the Company as Executive Director pursuant to Article 103 of the Company's Constitution and not to seek for re-election at the forthcoming AGM. This is part of the Board's move to facilitate changes to board composition and embrace recommended best practices. Following the retirement of Mr Seow, independent non-executive directors will make up a majority of the Board, which comprises seven Directors, of whom 4 are independent and 3 non-independent. The NC is of the view that the current Board comprises persons whose diverse skills, experience and attributes provide for an effective Board. The Board members also collectively possess the necessary core competencies for the effective functioning of the Board and an informed decision making process. The NC has reviewed and is satisfied that the current composition and board size is appropriate for effective decision making, having taken into consideration the nature and scope of the Group's operations. The NC will further consider other aspects of diversity such as gender and age, and assist the Board to put in place a board diversity policy and progress for implementation of such policy, so as to avoid group think and foster constructive debate.

The criterion of independence is based on the guidelines provided in the Code and Rule 210(5)(d) of the Listing Manual. The Board considers an "independent" director as one who has no relationship with the Company, its related corporations, its substantial shareholders or its officer that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the Group.

The independence of each Independent Director is assessed at least annually by the NC. Particular scrutiny is applied in assessing the continued independence of Directors having served beyond nine (9) years from the date of his first appointment, with attention to ensuring their allegiance remains clearly aligned with the shareholders' interest.

In respect of each of the four Independent Directors, namely Mr Goon Kok Loon, Professor Liew Jat Yuen, Richard, Mr Dominic Tan Eng Kiat and Mr Lim Ghim Siew, Henry, having served more than 9 years, the Board has considered specifically their length of services and their continued independence. A peer review on the independence of each of the Independent Directors was conducted at the Meeting of NC. Having observed and evaluated each Independent Director through the various factors and personal conduct, the NC affirmed each other's independence, despite serving more than nine (9) years on the Board. The Board has determined that the Directors concerned remained independent of character and judgement and there were no relationships or circumstances which were likely to affect, or could appear to affect, the Directors' judgement. The independence of character and judgement of each of the Directors concerned was not in any way affected or impaired by the length of services. The Board has also conducted a review of the performance of each of the four Independent Directors and considers that each of these Directors brings invaluable expertise, experience and knowledge to the Board and that they continue to contribute positively to the Board and Board Committee deliberation. Therefore, the Board is satisfied as to the performance and continued independence of judgement of each of these Directors.

The Board does not consider it to be in the interests of the Company or shareholders to require all Directors who have served more than 9 years or longer to retire and favours ensuring continuity and stability.

Independent Directors contribute to the Board's process by monitoring and reviewing the Management's performance against goals and objectives. Their views and opinions provide alternative perspectives to the Group's business. They constructively challenged and helped develop the Group's business strategies. Management's progress in implementing such agreed business strategies were monitored by the Directors.

The Independent Directors communicated without the presence of Management as and when the need arose. The Company also benefited from the Management's ready access to its Directors for guidance and exchange of views both within and outside the formal environment of the Board and Board Committees meetings.

# CORPORATE GOVERNANCE REPORT

**Chairman and Chief Executive Officer**

***Principle 3: There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.***

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

Mr. Seow Soon Yong, the Chief Executive Officer ("**CEO**"), has the executive responsibility for the day-to-day operations of the Group. He also assumes the responsibilities of the Chairman of the Board, which among other things, include the following:

- leads the Board to ensure its effectiveness in all aspects of its role and sets its agenda;
- ensures that the Board receives accurate, timely and clear information;
- ensures effective communication with shareholders;
- encourages constructive relations between the Board and Management;
- encourages constructive relations between Executive Directors and Independent Directors; and
- promotes high standards of corporate governance.

The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision-making by the Board is independent and based on collective decisions without any individual or group of individuals exercising any considerable concentration of power or influence. In order to ensure good corporate governance practice, Mr Goon Kok Loon has been appointed as the Lead Independent Director of the Company for the shareholders in situations where there are concerns or issues which communication with the Chief Executive Officer and/or Finance Director has failed to resolve or where such communication is inappropriate. Mr Goon Kok Loon will also take the lead in ensuring compliance with the Code. Led by the Lead Independent Director, the Independent Directors will meet in the absence of the other Directors as and when circumstances warrant.

**Board Membership**

***Principle 4: The Board has a formal and transparent process for the appointment and re-appointment of Directors, taking into account the need for progressive renewal of the Board.***

As at the date of this report, the NC consists of three (3) members, including the NC Chairman, all of whom are Independent:

| | | |
|---|---|---|
| Mr Tan Eng Kiat, Dominic | – | Chairman |
| Professor Liew Jat Yuen, Richard | – | Member |
| Mr Goon Kok Loon | – | Member |

The NC meets at least once a year. The NC carries out its duties in accordance with a set of written Terms of Reference, responsible for identifying and maintaining a formal and transparent process for the appointment of new Directors to the Board and to review nominations for the re-election of Directors. The key terms of reference of the NC include the following:

- reviewing the Board structure, size and composition and making recommendations to the Board, where appropriate;
- determining the process for search, nomination, selection and appointment of new Board members and assessing nominees or candidates for appointment and re-election to the Board;

# CORPORATE GOVERNANCE REPORT

- reviewing Board succession plans for Directors, in particular, the Chairman and CEO;
- making recommendations to the Board on the nomination of retiring Directors and those appointed during the year standing for re-election at the Company's Annual General Meeting ("**AGM**"), having regard to the Director's contribution and performance and ensuring that all Directors submit themselves for re-election at regular intervals;
- determining on annual basis whether a Director is independent, bearing in mind the circumstances set forth in the Code and any other salient factors;
- reviewing training and professional development programmes for the Board;
- deciding on the ability and adequacy of Directors with multiple board representations to carry out their duties and responsibilities to ensure that Directors have spent adequate time on the Company's affairs and carried out their responsibilities; and
- to propose, for Board's approval, objective performance criteria to evaluate the effectiveness of the Board as a whole and the Board Committee as well as the contribution by each Director to the effectiveness of the Board.

During FY2019, the NC held one scheduled meeting with full attendance.

The NC has in place a process for the selection of new Directors and re-appointment of Directors to increase transparency of the nominating process in identifying and evaluating nominees or candidates for appointment or re-appointment. In selecting potential new Directors, the NC will seek to identify the competencies and expertise required to enable the Board to fulfil its responsibilities. The NC will evaluate the suitability of the nominee or candidate based on his qualifications, business and related experience, commitment, ability to contribute to the Board process and such other qualities and attributes that may be required by the Board, before making its recommendation to the Board. In recommending a candidate for re-appointment to the Board, the NC considers, amongst other things, his/her contributions to the Board (including attendance and participation at meetings, time and effort accorded to the Company's or Group's business and affairs) and his/her independence. The Board ensures that the selected candidate is aware of the expectations and the level of commitment required.

To ensure that the Directors are competent in carrying out their expected roles and responsibilities, newly appointed Directors are given briefings by the CEO on the strategies of the Company and its key subsidiaries. The Directors will also, where necessary, receive appropriate training and orientation from time to time on other matters which would help them in the discharge of their duties as Directors of the Board or as members of the Board Committees.

The NC also reviews the independence and number of years served by each of the Independent Directors as mentioned under Rule 210(5)(d) of the Listing Manual of SGX-ST and Provision 2.1 of the Code. The NC has affirmed that Mr Goon Kok Loon, Mr Lim Ghim Siew, Henry, Mr Tan Eng Kiat, Dominic and Professor Liew Jat Yuen, Richard are independent and free from any relationship outlined in the Code. Each of the Independent Directors has also confirmed his independence. Having considered their in-depth knowledge of the Group's business operations, past and continuous contributions at Board level in terms of impartial and constructive advice, the Board is of the view that there is no material conflict between their tenure and their ability to discharge their role as Independent Directors.

All Directors, including the CEO, submit themselves for re-nomination and re-appointment at regular intervals of at least once every three years. The Company's Constitution requires one-third of the Directors to retire and subject for re-election by shareholders at every AGM ("**one-third rotation rule**"). In other words, no Director stays in office for more than three years without being re-elected by shareholders. In addition, a newly appointed Director will submit himself for retirement and re-election at the AGM immediately following his appointment. Thereafter, he is subject to the one-third rotation rule. The appointment of the Executive Directors including the CEO, is in accordance with a Service Agreement entered into between the respective individual and the Company. Under the terms of the said agreement, the Company or the relevant executives may terminate the respective Director's service by giving 6 months' notice in writing or 6 months' salary in lieu of notice.

# CORPORATE GOVERNANCE REPORT

The NC has recommended Mr Seow Soon Yong and Mr Siau Sun King, who are retiring and to be re-elected at the forthcoming AGM. They are retiring under Article 103 of the Constitution of the Company and, being eligible, Mr Seow Soon Yong and Mr Siau Sun King have offered themselves for re-election. Mr Seow Soon Hee has decided to retire from the Company as Executive Director pursuant to Article 103 of the Company's Constitution and not to seek for re-election at the forthcoming AGM. The Board has accepted the recommendation of the NC. The disclosure of information on Directors seeking re-election as required under Appendix 7.4.1 to the Listing Manual of the SGX-ST can be found in pages 33 to 38 of this Annual Report.

In making the recommendations for retirement and re-election, the NC considers the overall contribution and performance of the Directors. Each member of the NC will abstain from deliberation and voting on resolution (if applicable) in respect of his own assessment and re-nomination as Director.

None of the Directors above are related and do not have any relationship with the Company or its related corporations or its officers.

The Board provides for the appointment of alternate directors when any of the Directors think fit. The Board will take into consideration the same criteria for selection of Directors such as qualification, credential, experience and competency. The Company has no alternate Director during FY2019.

Key information of each member of the Board can be found under the "Board of Directors" and "Disclosure of information on Directors seeking re-election" sections of this Annual Report.

**Board Performance**

***Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.***

Pursuant to its Terms of Reference, the NC is also required to determine annually whether a director with multiple board representations is able to and has been adequately carrying out his duties as a Director of the Company. To address the competing time commitments that are faced when Directors serve on multiple boards, the NC has reviewed and made recommendation to the Board accordingly on the maximum number of listed company board appointments which any Director may hold. Based on the recommendation, the Board has determined and set the maximum number of other listed company board appointments at not more than four (4) other listed companies. Currently, none of the Directors holds more than four (4) directorships in other listed companies. The considerations in assessing the capacity of Directors include the following:

- Expected and/or competing time commitments of Directors, including whether such commitment is a full-time or part-time employment capacity;
- Geographical location of Directors;
- Size and composition of the Board;
- Nature and scope of the Group's operations and size; and
- Capacity, complexity and expectations of the other listed directorships and principle commitments held.

The NC, having reviewed each Director's outside directorships as well as each Director's contributions to the Board, is satisfied that all Directors have discharged their duties adequately for FY2019.

# CORPORATE GOVERNANCE REPORT

The NC has in place a framework for annual performance evaluations of the Board and Board Committees to assess the effectiveness of the Board and its Board Committees and to facilitate discussion to enable the Board to discharge its duties more effectively. The annual performance evaluations of the Board and Board Committees will be carried out by means of a questionnaire relating to the size and composition of the Board, information flow to the Board, Board procedures and accountability, matters concerning CEO/key management personnel and standards of conduct of Board members being completed by each individual Director. Completed questionnaires will be collated by the Company Secretary and the findings analysed and discussed with the Board and Board Committees. Recommendations to further enhance the effectiveness of the Board and Board Committees will be implemented, as appropriate.

**REMUNERATION MATTERS**

**Procedures for Developing Remuneration Policies**

***Principle 6: The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.***

**Level and Mix of Remuneration**

***Principle 7: The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.***

As at the date of this report, the RC consists of three (3) members, including the RC Chairman, all of whom are Independent.

| | | |
|---|---|---|
| Mr Lim Ghim Siew, Henry | – | Chairman |
| Mr Goon Kok Loon | – | Member |
| Mr Tan Eng Kiat, Dominic | – | Member |

Matters relating to the remuneration of the Board, key management personnel and other employees who are related to the Directors or CEO are handled by the RC whose primary function is to develop formal and transparent policies on remuneration matters in the Group. The RC also ensures that the Company's remuneration system is appropriate to attract, retain and motivate the required talents to run the Company successfully.

The RC meets at least once a year. During FY2019, the RC held one scheduled meeting with full attendance. It has access to the Group Human Resource Manager when clarification and advice are needed. The key responsibilities of the RC are:

- to review and recommend to the Board in consultation with the Chairman of the Board, a framework of remuneration and to determine the specific remuneration packages and terms of employment for each of the Executive Directors and key management personnel of the Group including those employees related to the Executive Directors and controlling shareholders of the Group;

- to recommend to the Board in consultation with the Chairman of the Board, the Employees' Share Option Scheme or any long term incentive schemes which may be set up from time to time and to do all acts necessary in connection therewith; and

- to carry out its duties in the manner that it deems expedient, subject always to any regulations or restrictions that may be imposed upon the RC by the Board from time to time.

# CORPORATE GOVERNANCE REPORT

The RC is responsible for ensuring a formal and transparent procedure is in place for fixing the remuneration packages of individual Directors and key management personnel. All aspects of remuneration frameworks, including but not limited to Directors' fees, salaries, allowances, bonuses and other benefits-in-kind are reviewed by the RC. The recommendations of the RC are submitted for endorsement by the Board. Such frameworks are reviewed periodically to ensure that the Directors and key management personnel are adequately but not excessively remunerated as compared to industry benchmarks and other comparable companies. The RC also considers and recommends the CEO's remuneration package including salary, bonus and benefits-in-kind for endorsement by the Board.

During the financial year, none of the Independent Directors is on service contracts or have consultancies with the Company except for Professor Liew Jat Yuen, Richard who was appointed as Technical Advisor with a monthly fee of $3,800. The Independent Directors are paid Directors' fees, which comprise basic fees and additional fees for serving on Board Committees.

Payment of these fees is subject to the shareholders' approval at the forthcoming AGM. The RC ensures that the Independent Non-Executive Directors should not be over-compensated to the extent that their independence may be compromised. Each member of the RC abstains from voting on any resolutions in respect of his own remuneration package. To ease the financial burden of the Company, all Independent Directors agreed to a reduced directors' fee for FY2019 which was computed based on the old fee structure back in FY2009 and FY2010, until a date as RC deems fit.

The remuneration of employees who are immediate family members of Director and the CEO will be reviewed annually by the RC to ensure that their remuneration packages are in line with the staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. Any bonuses and pay increments for these employees will also be subject to the review and approval of the RC. In the event that a member of the RC is related to the employee under review, he will abstain from participating in the review. Where necessary, the RC will consult external professionals on remuneration matters of Directors and key management personnel.

Having reviewed and considered the salary components of the Executive Directors and the key management personnel which is considered reasonable and commensurate with their respective job scope and level of responsibilities, the RC is of the view that there is no requirement to use contractual provisions to allow the Company to reclaim incentive components of the remuneration paid in prior years in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss.

# CORPORATE GOVERNANCE REPORT

**Disclosure on Remuneration**

***Principle 8: The Company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.***

During the year, the RC held one meeting to review and revise the compensation structure of the Directors. A breakdown showing the level and mix of the remuneration of the Directors is as follows:

| Name of Directors | Fees[1] (%) | Salary[2] (%) | Performance Related Income (%) | Others (%) | Total (%) | Total ($'000) |
|---|---|---|---|---|---|---|
| Seow Soon Yong (CEO and MD) | – | 92 | – | 8 | 100 | 504 |
| Chia Sin Cheng | – | 96 | – | 4 | 100 | 411 |
| Siau Sun King | – | 80 | – | 20 | 100 | 345 |
| Seow Soon Hee | – | 87 | – | 13 | 100 | 249 |
| Lim Ghim Siew, Henry | 100 | – | – | – | 100 | 48 |
| Goon Kok Loon | 100 | – | – | – | 100 | 57 |
| Liew Jat Yuen, Richard | 100 | – | – | – | 100 | 44 |
| Tan Eng Kiat, Dominic | 100 | – | – | – | 100 | 41 |

**Notes:**

(1) The Directors' fees are subject to the approval of the shareholders at the AGM.

(2) The salary includes CPF contribution.

The range of gross remuneration received by the top 5 key management personnel (excluding Executive Directors) of the Group is as follows:

| Remuneration Band | No. of Executives |
|---|---|
| $250,000 – $499,999 | 5 |

In aggregate, the total remuneration (including CPF contribution thereon and bonus) paid to the top 5 key management personnel in FY2019 is approximately $1,734,000.

The Board is of the view that given the highly competitive industry conditions coupled with the sensitivity and confidentiality of remuneration matters, the disclosure of remuneration in bands and not on named basis for key management personnel provides sufficient overview of the remuneration of the key management personnel and does not prejudice the Group's interest. There are no termination, retirement and post-employment benefits granted to Directors, the CEO and the top 5 key management personnel.

# CORPORATE GOVERNANCE REPORT

For FY2019, the following immediate family members of a Director, CEO or Substantial Shareholder were the employees of the Group:

| Name of employees who are immediate family members | Relationship with the Directors, CEO or Substantial Shareholder of the Group | Designation | Remuneration band |
|---|---|---|---|
| Siau Sze You | Son of Siau Sun King | Deputy General Manager | \$100,001 – \$200,000 |
| Seow Khng Chai | Brother of Seow Soon Yong, Seow Soon Hee and Siau Sun King | General Manager (Malaysia Operation) | \$100,001 – \$200,000 |
| Seow Soon Hock | Brother of Seow Soon Yong, Siau Sun King and Seow Soon Hee | Production Director | \$200,001 – \$300,000 |

The aggregate remuneration (including CPF contribution thereon and bonus) of these employees amounted to approximately \$616,000.

Save as disclosed above, the Group does not have any other employee who is an immediate family member of a Director, CEO or Substantial Shareholder and whose remuneration exceeded \$100,000 during the financial year.

**ACCOUNTABILITY AND AUDIT**

**Risk Management and Internal Controls**

***Principle 9: The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders***

In discharging its responsibility of providing accurate relevant information on a timely basis to shareholders in compliance with statutory and regulatory requirements, the Board strives to ensure the timely release of the Group's financial results and that the results provide a balanced and understandable assessment of the Group's performance, position and prospects.

The Board takes steps to ensure compliance with legislative and regulatory requirements, including requirements under the Listing Manual, where appropriate. The Independent Directors in consultation with Management will request for Management's consideration for the establishment of written policies for any particular matter that is deemed to be essential to form part of management control.

On a quarterly basis, the Management will report to the AC ensuring the financial processes and controls are in place, highlighting material financial risks and impacts and providing updates on status of significant financial issues of the Group, if any.

In accordance with the Singapore Exchange's requirements, the Board issued negative assurance statements in its quarterly financial results announcements, confirming to the best of its knowledge that nothing had come to the attention of the Board which might render the financial statements false or misleading in any material aspect.

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

# CORPORATE GOVERNANCE REPORT

The Management is responsible to the Board for the design, implementation and monitoring of the Group's risk management and internal control systems and to provide the Board with a basis to determine the Group's level of risk tolerance and risk policies. The Board acknowledges that it is responsible for reviewing the adequacy and effectiveness of the Group's risk management and internal control systems including financial, operational, compliance and information technology controls.

The Board also recognises its responsibilities in ensuring a sound system of internal controls to safeguard shareholders' investments and the Group's assets.

The Company outsources its internal audit function to PricewaterhouseCoopers LLP ("PwC") to assist the Board and the AC in their review of the Group's risk management and internal control systems focusing on financial, operational, compliance and information technology controls. The Board believes that adequate internal controls within the Group are crucial to ensure that the Group continues to meet or exceed its standards in all key aspects, at the same time to safeguard shareholders' interest and the Group's assets through effective risk management. There was no specific internal audit review carried out by PwC during the financial year.

A risk management assessment has been performed by the Management with the assistance of the internal auditor. On an annual basis, the AC reviews and reports to the Board the Group's risk profile, evaluates results and counter-measures to mitigate potential risks so as to assure itself and the Board that the process is operating effectively as planned. The Group recognises risk management as a collective effort beginning with the individual subsidiaries and business units. The process identifies relevant potential risks across the Group's operations with the aim to bring them to within acceptable cost and tolerance parameters.

The Management regularly reviews and updates the Board on the Group's business and operational activities in respect of the key risk control areas including financial, operational, compliance and information technology controls and continues to apply appropriate measures to control and mitigate these risks. All significant matters are highlighted to the Board and the AC for further discussion. The Board and the AC also work with the internal auditors and the Management on their recommendations to institute and execute relevant controls with a view to managing such risks.

With the assistance of the internal auditors of the Group, the key risk areas which have been identified are continued to be analysed, monitored and mitigated. In this connection, the Group will conduct an enterprise risk assessment, with the assistance of internal auditors, and has developed a detailed risk registers and summary of comfort to ensure that the Group's risk management and internal control systems are adequate and effective.

The Board notes that no system of risk management and cost effective system of internal controls could provide absolute assurance against the occurrence of material errors, losses, fraud or other irregularities and the containment of business risk. Nonetheless, the Board believes its responsibility of overseeing the Group's risk management framework and policies are well supported. In view of the above and based on the internal controls established and maintained by the Group, work performed by the internal auditors, the statutory audit conducted by the external auditors, and reviews performed by the Management, various Board Committees and the Board so far, the Board, with the concurrence of the AC, is of the opinion that the Group's risk management and internal control systems, addressing financial, operational, compliance and information technology risks, put in place during the financial year were adequate and effective. This is in turn supported by (a) the assurance from the CEO and the Finance Director that the financial records of the Company have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances are in accordance with the relevant accounting standards; and (b) the assurance from the CEO and other key management personnel who are responsible, regarding the adequacy and effectiveness of the Company's risk management and internal control systems.

# CORPORATE GOVERNANCE REPORT

**Audit Committee**

***Principle 10: The Board has an Audit Committee which discharges its duties objectively.***

As at the date of this report, the AC consists of three (3) members, including the AC chairman, all of whom are Independent.

| | | |
|---|---|---|
| Mr Goon Kok Loon | – | Chairman |
| Mr Lim Ghim Siew, Henry | – | Member |
| Professor Liew Jat Yuen, Richard | – | Member |

The members of the AC have many years of experience at senior management positions in the financial and industrial sectors. They have sufficient financial management expertise and experience to discharge the AC's functions.

The AC meets on a quarterly basis and plays a key role in assisting the Board to review significant financial reporting issues and judgments to ensure the quality and integrity of the accounting reports, the audit procedures, internal controls, financial statements and any announcements relating to the Group's financial performance.

The members of the AC carry out their duties in accordance with a set of terms of reference which includes, mainly, the following:

- assist the Board in discharging of its responsibilities on financial reporting matters;
- review, with the internal and external auditors, the audit plans, scope of work, their evaluation of the system of internal accounting controls, their management letter and management's response, and results of the audits compiled by internal and external auditors;
- review the periodic consolidated financial statements and results announcements before submission to the Board for approval, focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with financial reporting standards as well as compliance with the Listing Rules and any other statutory and regulatory requirements;
- review the effectiveness and adequacy of the internal control procedures addressing financial, operational, compliance and information technology risks, and ensure co-ordination between the internal and external auditors, and the Management, reviewing the assistance given by the Management to the auditors, and discuss problems and concern, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of the Management where necessary);
- review the assurance from the CEO and the Finance Director on the financial records and financial statements;
- review the adequacy, effectiveness, independence, scope and results of the external audit, and the Company's internal audit function;
- review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and the Management's response;
- make recommendations to the Board on the proposals to the Shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;
- review significant financial reporting issues and judgments with the Finance Director and the external auditors so as to ensure the integrity of the financial statements of the Group;
- review any formal announcements relating to the Group's financial performance before their submission to the Board of Directors;

# CORPORATE GOVERNANCE REPORT

- review and report to the Board at least annually the adequacy and effectiveness of the Group's material internal controls with the Finance Director, the finance manager and the internal and external auditors, including financial, operation, compliance and information technology controls via reviews carried out by the internal auditors;
- review and approve transactions falling within the scope of Chapter 9 and Chapter 10 of the Listing Rules (if any);
- review any potential conflicts of interest;
- review arrangements by which the staff may, in confidence, raise concerns about improprieties in matters of financial reporting or other matters, and to ensure that those arrangements are in place for independent investigations of such matters and for appropriate follow-up.

Apart from the duties listed above, the AC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Group's operating results and/or financial position. Each member of the AC shall abstain from voting on any resolutions in respect of matters in which he is interested.

The AC reviews the audit plan and scope of examination of the external auditors and the assistance given by the Group's officers to the external auditors. The AC also discusses with the external auditors the results of their examinations and at least once a year holds separate sessions with them without the presence of the Management to discuss any matters deemed appropriate to be discussed privately. In addition, the AC reviews announcements relating to the Group's quarterly and full-year financial results, the financial statements of the Company and the consolidated financial statements of the Group prior to its recommendations to the Board for approval. The AC discussed with the Management on the accounting treatment and methodology applied as well as the assumptions used in judgemental assessment which might impact the results of financial statements. The external auditors had reviewed the financial statements of the Group and highlighted some key audit matters that might significantly impact the financial statements and were reviewed by AC as follows:

| | |
|---|---|
| • **Accounting for construction contracts** | Accounting for construction contracts was an area of focus for the external auditors as it has been included as one of the Key Audit Matters in its Auditor's Report for FY2019.<br><br>The AC discussed with Management and considered the accounting treatment and methodology applied to the project account and analysis model in assessing the revenue recognition process. It reviewed the reasonableness of variation order claims against the certified amounts during the progress of projects. The AC is satisfied that proper documentation is in place and there are instructions in written form to ensure the accuracy of revenue recognition. |
| • **Impairment of certain steel beams and columns** | Impairment review of certain steel beams and columns was also an area of focus for the external auditors as it has been included as one of the Key Audit Matters in its Auditor's Report for FY2019.<br><br>The AC considered the accounting treatment and methodology applied to the valuation model in impairment of strutting assets. It reviewed the reasonableness of the value-in-use of cash-generating unit, cash flow forecast, revenue growth rates and discount rate used in the valuation model. The AC is satisfied with the accounting treatment, the judgments and the methodology applied. |

# CORPORATE GOVERNANCE REPORT

The AC also reviews the independence and objectivity of the external auditors and reviewed the scope and value of non-audit services provided to the Group by the external auditors, Ernst & Young LLP. The aggregate amount of audit and non-audit fees paid or payable to the external auditors for FY2019 are $241,500 and $35,000 respectively. The AC is satisfied that the nature and extent of such services does not prejudice the independence and objectivity of the external auditors. The AC has recommended to the Board the nomination of Ernst & Young LLP for re-appointment as auditors of the Company at the forthcoming AGM. The Group has also complied with Rules 712 and 715(1) of the Listing Manual of SGX-ST in relation to the appointment of its external auditors.

The AC has explicit authority to investigate any matter within its terms of reference. It has full access to, and has had the full co-operation of the Management. It also has full discretion to invite any Director or any member of the Management to attend its meetings or be provided with reasonable resources to enable it to discharge its functions properly.

To keep abreast of the changes in accounting standards and issues which have a direct impact on the financial statements, the AC will seek advice from the external auditors. During the year, the AC was briefed on the new accounting standards and issues which are relevant to the Group and that would have direct impact to the Group's consolidated financial statements by the external auditors at the AC meeting.

None of the AC members (i) is a former partner or director of the Company's existing auditing firm or auditing corporation in the previous 12 months and (ii) holds any financial interest in the auditing firm or auditing corporation.

**WHISTLE-BLOWING POLICY**

In order to encourage proper work ethics and eradicate any internal improprieties, unethical acts, malpractices, fraudulent acts, corruption and/or criminal activities in the Group, the Group has implemented a Whistle-Blowing Policy. The Whistle-Blowing Policy stipulates the mechanism by which concerns about plausible improprieties in matters of financial reporting, etc that may be raised. A dedicated secured e-mail address allows whistle blowers to contact the AC. The Whistle-Blowing Policy and its procedures have been made available to all employees.

The Group's Whistle Blowing Policy allows employees to raise concerns and offers reassurance that they will be protected from reprisals or victimisation for whistle blowing in good faith.

The Group's addresses issues/concerns raised and arranges for investigation and/or follow-up of appropriate action. The AC reports to the Board any issues/concerns received by it at the ensuing Board meeting. Should the AC receive reports relating to serious offences, and/or criminal activities in the Group, they and the Board have access to the appropriate external advice where necessary. Where appropriate or required, a report shall be made to the relevant governmental authorities for further investigation/action. There was no whistle blowing report received in FY2019.

The AC's responsibilities in the Group's internal controls include reviewing the scope and effectiveness of the overall internal audit system, programmes and various aspects of internal controls and risk management of the Group are complemented by the work of the internal auditors.

PwC, as independent internal auditor, performs internal audit review on various projects and specific business processes review when necessary. The AC believes that PwC is independent, adequately and effectively resourced to perform internal audit review as it is always receiving full cooperation from Management.

The internal auditors' carrying out of their audit work is in accordance with the standards set by the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The AC ensures that Management provides good support to the internal auditors and provides them with access to documents, records, properties and personnel when requested in order for the internal auditors to carry out their work accordingly. The primary reporting line of the internal audit function is to the AC and they have unrestricted access to the AC on internal audit matters. The AC will review internal audit reports of the Group. Any material non-compliance or failures in internal control and recommendations for improvements will be reported to the AC.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS RIGHTS AND ENGAGEMENT

### Shareholder Rights and Conduct of General Meetings

***Principle 11: The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.***

### Engagement with Shareholders

***Principle 12: The Company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the Company.***

The Group recognises the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and the rights of all investors, including non-controlling shareholders are protected. The Group is committed to providing shareholders with adequate, timely and relevant information pertaining to changes in the Group's business which could have a material impact on the Company's share price.

The Company believes in regular, effective and fair communication with members of the investment community and investing public and has adopted a comprehensive policy to provide clear, timely and fair disclosure of information about the Company's business developments and financial performance.

The Board embraces openness and transparency in the conduct of the Group's affairs, whilst safeguarding its commercial interests. Material information on the Group has been released to the public through the Company's announcements via SGXNET.

The Group strongly encourages shareholders' participation at the AGM. Shareholders are able to proactively engage the Board and the Management on the Group's business activities, financial performance and other business related matters through dialogue sessions. The Group believes in regular, effective and fair communication with shareholders and is committed to hearing shareholders' views and addressing their concerns. The Board believes that general meetings serve as an opportune forum for shareholders to meet the Board and key management personnel, and to interact with them. Information on general meetings is disseminated through notices in the annual reports or circulars sent to all shareholders. The notices are also released via SGXNET and published in local newspapers, as well as posted on the Company's website.

The Company currently does not have an investor relations policy. However, the Company has engaged an external investor relations adviser, Citigate Dewe Rogerson Singapore Pte Ltd, to carry out investor relations activities.

The Company strives to communicate with shareholders and the investing community through the timely release of announcements to the SGX-ST via SGXNET. Financial results of the Company and the Group were released within 45 days remains from the respective quarter ended and within 60 days from the full-year financial year ended during the year.

Following the recent amendments to Rule 705 of the Listing Manual of the SGX-ST ("Amended Listing Rules") which came into effect on 7 February 2020, the Company will not be required to carry out quarterly reporting of its financial results. Going forward, the Company will release announcements pertaining to the unaudited financial results of the Group on a half-yearly basis in accordance to the Amended Listing Rules. However, the Company will continue to keep shareholders updated on material developments relating to the Company and the Group in compliance with its continuing disclosure obligations, as and when appropriate. In addition, the Annual Report 2019 will be distributed to shareholders at least 14 clear days before the forthcoming AGM to be held on 29 June 2020. To further enhance its communication with investors, the Company has also enhanced its website through its Investor Relations at http://www.yongnamgroup.com/investor.html where the public can access information on the Group directly.

# CORPORATE GOVERNANCE REPORT

The Company also allows all members to appoint not more than two proxies to attend general meetings and vote on their behalf. Member who is a relevant intermediary (as defined under the Section 181 of the Companies Act, Chapter 50 of Singapore) may appoint more than two (2) proxies to attend, speak and vote at the shareholders' meetings, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

As the authentication of shareholder identity information and other related security issues still remain a concern, the Group has decided, for the time being, not to implement voting in absentia by mail, email or fax. Separate resolutions on each distinct issue are tabled at general meetings and explanatory notes are set out in the notices of general meetings where appropriate.

All Directors including Chairman of the Board and the respective Chairman of the Board Committees, Management, legal professional (if required) and the external auditors are intended to be in attendance at forthcoming AGM to address any queries of the shareholders.

The Company will record the minutes of general meetings that include substantial and pertinent comments from shareholders relating to the agenda of the meetings and responses from the Management. Such minutes will be made available to shareholders upon their written request. The Board of Directors the Company has taken into consideration of the best practice for publishing minutes of general meetings of the Company on its corporate website under Provision 11.5 of the Code. In this regard, the Company believes that there should have a line between shareholders and members of the public and that the right to inspect minutes of general meeting is, under the applicable laws in Singapore, limited to only shareholders because they are considered to have a legitimate interest in the affairs of the Company.

Whereas publishing minutes of general meetings online, widens knowledge of the Company's affairs to outsiders may not be in the best interest of the Company and its shareholders, given the queries raised by the shareholders at the general meetings and the Directors' comments in response to shareholders' queries may contain private and "reasonable commercial confidential" information.

In view of the above, the Company recognises that protecting the interest of the Company and its shareholders should prevail over a transparency best practice and therefore, the Company has decided for the time being, not to publish the minutes of general meetings on its corporate website.

The Board acknowledges voting by poll is integral in the enhancement of corporate governance and lead to greater transparency of the level of support for each resolution where shareholders are accorded rights proportionate to the shareholding and all votes counted. The AC and Board noted that for good corporate governance practices, the Company has been conducting its voting by poll at the general meetings. As the authentication of shareholder identity and other related security and integrity issues still remain a concern, the Company has decided for the time being, not to implement absentia voting methods such as voting via mail, e-mail or fax.

**DIVIDEND POLICY**

The Company is committed to achieving sustainable income and growth to enhance total shareholder return although it does not have a fixed dividend policy. The Group aims to balance cash return to shareholders and investment for sustaining growth, while aiming for an efficient capital structure. In considering the form, frequency and amount of dividends that the Board may recommend or declare in respect of any particular year or period, the Board takes into account various factors including:

- the results of operations and cash flow;
- the expected financial performance and working capital needs;
- future prospects; and
- capital expenditures and other investment plans;

as well as general economic and business operations and other factors deemed relevant by the Board and statutory restrictions on the payment of dividends. The Board does not declare any dividend after taking into account various factors mentioned above.

# CORPORATE GOVERNANCE REPORT

## MANAGING STAKEHOLDERS RELATIONSHIPS

### Engagement with Stakeholders

***Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.***

The Group has identified stakeholders as those who are impacted by the Group's business and operations as well as those who have a material impact on the Group's business and operations. The Company engages its stakeholders through various channels to ensure that the business interests of the Group are balanced against the needs and interests of its stakeholders. For more information on the Company's stakeholder engagement, please refer to the Company's Sustainability Report 2019 which is to be published in May 2020.

The Company maintains a corporate website at http://www.yongnamgroup.com to communicate and engage with stakeholders.

## OTHER CORPORATE GOVERNANCE MATTERS

The Company has in place internal codes of conduct and practices for its Board members and employees on securities transactions while in possession of price-sensitive information and their conduct of business activities.

## DEALINGS IN SECURITIES

*(Rule 1207(19) of the Listing Manual of SGX-ST)*

The Company has adopted the SGX-ST's Listing Rule 1207(19) in relations to dealings in the Company's securities. The Directors and the senior management are advised not to deal in the Company's shares during the period commencing two weeks before the announcement of the Group's quarterly financial results or one month before the announcement of the Group's full-year financial results, and ending on the date of announcement of the relevant results.

The Directors and the senior management are also advised of the relevant provisions under the Securities and Futures Act of Singapore to prohibit dealing with the Company's securities on short-term considerations or while in possession of unpublished material price-sensitive information in relation to the securities.

Directors who deal with Company's shares are required to notify the Company Secretary to make necessary announcements in accordance with the requirements of the SGX-ST.

In view of the above, the Company has complied with the SGX-ST's Listing Rules on best practices on dealing in the Company's securities in the FY2019.

## INTERESTED PERSON TRANSACTIONS

*(Rule 907 of the Listing Manual of SGX-ST)*

The Company has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and the transactions are carried out on normal commercial terms and will not be prejudicial to the interest of the Company and its minority shareholders.

There was no interested person transaction, as defined in Chapter 9 of the Listing Manual of SGX-ST, above $100,000 entered into by the Group during FY2019.

# CORPORATE GOVERNANCE REPORT

## MATERIAL CONTRACTS

*(Rule 1207(8) of the Listing Manual of SGX-ST)*

Save for service agreements between the Company and Executive Directors as well as the consultancies service agreement with Professor Liew Jat Yuen, Richard as disclosed in this report, there were no other material contracts of the Company and its subsidiaries involving the interests of the CEO or any Director or controlling shareholder, either subsisting at the end of the financial year or if not then subsisting, which were entered into since the end of the previous financial year.

## CORPORATE DISCLOSURE

The Company believes that a high level of disclosure is essential to enhance the standard of corporate governance. Hence, the Company is committed to provide a high level of disclosure in all public announcements, press releases and annual reports.

# DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Mr Seow Soon Yong and Mr Siau Sun King are the Directors seeking re-election at the forthcoming AGM (collectively, the "**Retiring Directors**" and each a "**Retiring Director**").

Pursuant to Rule 720(6) of the Listing Manual of the SGX-ST, the following is the information relating to the Retiring Directors as set out in Appendix 7.4.1 to the Listing Manual of the SGX-ST:

<table>
<tr><th></th><th>SEOW SOON YONG</th><th>SIAU SUN KING</th></tr>
<tr><td>Date of Appointment</td><td>19 October 1994</td><td>19 October 1994</td></tr>
<tr><td>Date of last re-appointment (if applicable)</td><td>26 April 2017</td><td>26 April 2017</td></tr>
<tr><td>Age</td><td>65</td><td>72</td></tr>
<tr><td>Country of principal residence</td><td>Singapore</td><td>Singapore</td></tr>
<tr><td>The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)</td><td colspan="2">The Board of Directors of the Company has considered, among others, the recommendation of the Nominating Committee ("NC") and has reviewed and considered the contribution, performance, attendance, preparedness, participation, candour and suitability for the following re-election of Directors of the Company:<br><br>• Mr Seow Soon Yong – Managing Director<br>• Mr Siau Sun King – Executive Director<br><br>The Board has reviewed and concluded that Mr Seow Soon Yong and Mr Siau Sun King possess the experience, expertise, knowledge and skills to contribute towards the core competencies of the Board.</td></tr>
<tr><td>Whether appointment is executive, and if so, the area of responsibility</td><td><u>Executive</u><br><br>Mr Seow is responsible for the day-to-day management of the Group's operations, setting the Group's strategic direction and executing the Group's business strategies.</td><td><u>Executive</u><br><br>Mr Siau currently oversees the Group's operations in Malaysia as well as the Mechanical Engineering Division.</td></tr>
<tr><td>Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)</td><td>Managing Director and Chief Executive Officer</td><td>Executive Director</td></tr>
<tr><td>Professional qualifications</td><td>N/A</td><td>Mechanical Engineering graduate from the Ngee Ann Polytechnic</td></tr>
<tr><td>Working experience and occupation(s) during the past 10 years</td><td>Managing Director and Chief Executive Officer of Yongnam Holdings Limited</td><td>Executive Director of Yongnam Holdings Limited</td></tr>
<tr><td>Shareholding interest in the listed issuer and its subsidiaries</td><td><u>Direct</u><br>interest 86,105,007 ordinary shares<br><br><u>Deemed</u><br>Interest 4,082,108 held through Yongnam Private Limited</td><td><u>Direct</u><br>interest 2,784,217 ordinary shares<br><br><u>Deemed</u><br>Interest 4,082,108 held through Yongnam Private Limited</td></tr>
<tr><td>Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries</td><td colspan="2">Mr Seow Soon Yong, Mr Seow Soon Hee and Mr Siau Sun King are siblings.</td></tr>
</table>

# DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

| | SEOW SOON YONG | SIAU SUN KING |
|---|---|---|
| Conflict of interest (including any competing business) | None | None |
| Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer | Yes | Yes |
| Other Principal Commitments Including Directorships | Yes | Yes |
| Past (for the last 5 years) | None | None |
| Present | Yongnam Engineering Sdn Bhd<br><br>Yongnam Engineering (Hk) Limited<br><br>Jiwa Harmoni Offshore Sdn Bhd<br><br>Yongnam Engineering & Construction (Thailand) Ltd<br><br>Yongnam Steel Work System Engineering (Shanghai) Co. Ltd<br><br>Yongnam Engineering & Construction (Private) Limited, Dubai Branch<br><br>Yongnam Steel Work System Engineering (Jinjiang) Co. Ltd<br><br>Yongnam Engineering & Construction Sdn Bhd<br><br>Yongnam Myanmar Co., Limited<br><br>Yongnam – Jian Huang Joint Venture<br><br>Yongnam Engineering & Construction (Private) Limited<br><br>Yongnam Development Pte Ltd<br><br>Yongnam Investment Pte Ltd<br><br>Yongnam Engineering India Pvt Ltd<br><br>YNE Project Engineering Pte. Ltd. | Yongnam Engineering Sdn Bhd<br><br>Jiwa Harmoni Offshore Sdn Bhd<br><br>Yongnam Steel Work System Engineering (Shanghai) Co. Ltd<br><br>Yongnam Engineering & Construction (Private) Limited, Dubai Branch<br><br>Yongnam Steel Work System Engineering (Jiajiang) Co. Ltd<br><br>Yongnam Engineering & Construction Sdn Bhd Yongnam Engineering & Construction (Private) Limited<br><br>Yongnam Development Pte Ltd<br><br>YNE Project Engineering Pte. Ltd. |

# DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

| | SEOW SOON YONG | SIAU SUN KING |
|---|---|---|
| **Information required**<br><br>**Disclose the following matters concerning an appointment of director, chief executive officer, chief financial officer, chief operating officer, general manager or other officer of equivalent rank. If the answer to any question is "yes", full details must be given.** | | |
| (a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner? | No | No |
| (b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency? | No | No |
| (c) Whether there is any unsatisfied judgment against him? | No | No |
| (d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose? | No | No |

# DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

| | SEOW SOON YONG | SIAU SUN KING |
|---|---|---|
| (e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach? | No | No |
| (f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part? | No | No |
| (g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust? | No | No |
| (h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust? | No | No |

# DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

| | SEOW SOON YONG | SIAU SUN KING |
|---|---|---|
| (i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity? | No | No |
| (j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:– | | |
| i. any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or | No | No |
| ii. any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or | No | No |
| iii. any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or | No | No |
| iv. any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust? | No | No |

# DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

| | SEOW SOON YONG | SIAU SUN KING |
|---|---|---|
| (k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere? | No | No |
| **Information required**<br><br>**Disclosure applicable to the appointment of Director only** | | |
| Any prior experience as a director of an issuer listed on the Exchange?<br>If yes, please provide details of prior experience.<br>If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.<br>Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable). | N/A | N/A |

# FINANCIAL CONTENTS

# DIRECTORS' STATEMENTS

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of Yongnam Holdings 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 2019.

**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 2019 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:

Seow Soon Yong
Siau Sun King
Seow Soon Hee
Chia Sin Cheng
Lim Ghim Siew, Henry
Goon Kok Loon
Liew Jat Yuen, Richard
Tan Eng Kiat, Dominic

**Arrangements to enable directors to acquire shares and debentures**

Except as disclosed in the subsequent paragraphs, 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 object 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' STATEMENTS

**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, Cap. 50, an interest in shares and share options of the Company and related corporations as stated below:

(a) **Yongnam Holdings Limited - Ordinary shares**

| | Direct interest | | | Deemed interest | | |
|---|---|---|---|---|---|---|
| **Name of director** | **At 31.12.2018** | **At 31.12.2019** | **At 21.1.2020** | **At 31.12.2018** | **At 31.12.2019** | **At 21.1.2020** |
| Seow Soon Yong | 107,205,218 | 107,205,218 | 107,205,218 | 35,082,108 | 4,082,108 | 4,082,108 |
| Siau Sun King | 2,784,217 | 2,784,217 | 2,784,217 | 4,082,108 | 4,082,108 | 4,082,108 |
| Seow Soon Hee | 250,000 | 250,000 | 250,000 | 6,745,346 | 6,745,346 | 6,745,346 |
| Chia Sin Cheng | 3,713,494 | 3,713,494 | 3,713,494 | – | – | – |
| Lim Ghim Siew, Henry | 225,000 | 225,000 | 225,000 | – | – | – |
| Liew Jat Yuen, Richard | 600,000 | 600,000 | 600,000 | – | – | – |
| Tan Eng Kiat, Dominic | 225,000 | 225,000 | 225,000 | – | – | – |

(b) **Yongnam Holdings Limited - Options to subscribe for ordinary shares**

| **Name of director** | **At 31.12.2018** [1] | **At 31.12.2019** [1] | **At 21.1.2020** [1] | **Exercise Price ($)** [1] | **Exercise period** |
|---|---|---|---|---|---|
| Seow Soon Yong | 2,508,000 | – | – | 0.303 | 12 March 2010 to 11 March 2019 |
| Chia Sin Cheng | 1,108,800 | – | – | 0.303 | 12 March 2010 to 11 March 2019 |
| Goon Kok Loon | 132,000 | – | – | 0.303 | 12 March 2010 to 11 March 2019 |

**Note:**

[1] The number of outstanding share options and exercise price were adjusted as a result of the Rights Issue in 2016 in accordance to Rule 12.1 of the ESOS.

Except as disclosed in this statement, 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 or at the end of the financial year, or on 21 January 2020.

# DIRECTORS' STATEMENTS

**Share options**

The Employee Share Option Scheme is administered by the Remuneration Committee (the "Committee") comprising the following members:

Lim Ghim Siew, Henry (Chairman)
Goon Kok Loon
Tan Eng Kiat, Dominic

Details of the scheme are as follows:

(a) **Employee Share Option Scheme ("ESOS")**

The ESOS was approved by the shareholders during the Extraordinary General Meeting held on 16 June 2004. Executive and non-executive directors, and employees of the Group or associated companies are eligible to participate in the ESOS.

The ESOS share options granted are exercisable for ten years after date of grant, and are exercisable at an exercise price set at:

(i) a discount to a price ("Market Price") equal to the average of the last dealt prices for the Shares on the official list of the SGX-ST for the five consecutive market days immediately preceding the relevant date of grant of the ESOS share option, subject to a maximum of 20% discount ("Incentive Option"); or

(ii) a fixed Market Price ("Market Price Option")

The Committee has the discretion to grant options set at a discount to Market Price, and determine the participants to whom, and the options to which, such reduction in exercise prices will apply.

Incentive Options granted are exercisable after the second anniversary from the date of grant of the option, and Market Price Options granted may be exercised after the first anniversary of the date of grant of that option.

The ESOS shall continue in operation for a maximum duration of ten years and may be continued for any further periods thereafter with the approval of shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.

**Share options (cont'd)**

(a) **Employee Share Option Scheme ("ESOS") (cont'd)**

Details of all the outstanding options to subscribe for ordinary shares of the Company pursuant to the ESOS are as follows:

| Date of grant | Balance as at 1.1.2019 | Lapsed during the year | Balance as at 31.12.2019 | Exercise Price $ | Exercisable period |
|---|---|---|---|---|---|
| 12 March 2009 | 3,954,192 | (3,954,192) | – | 0.303 | 12 March 2010 to 11 March 2019 |
| | 3,954,192 | (3,954,192) | – | | |

Details of the options to subscribe for ordinary shares of the Company granted to directors of the Company pursuant to the ESOS are as follows:

| Name of director | Aggregate options granted since commencement of ESOS to end of financial year[1] | Aggregate options exercised/ lapsed since commencement of ESOS to end of financial year[1] | Aggregate options outstanding as at end of financial year[1] |
|---|---|---|---|
| Seow Soon Yong | 9,794,400 | (9,794,400) | – |
| Siau Sun King | 1,465,200 | (1,465,200) | – |
| Seow Soon Hee | 1,465,200 | (1,465,200) | – |
| Chia Sin Cheng | 5,240,400 | (5,240,400) | – |
| Lim Ghim Siew, Henry | 633,600 | (633,600) | – |
| Goon Kok Loon | 567,600 | (567,600) | – |
| Liew Jat Yuen, Richard | 567,600 | (567,600) | – |
| Tan Eng Kiat, Dominic | 237,600 | (237,600) | – |

[1] The number of outstanding share options and exercise price were adjusted as a result of the Rights Issue in 2016 in accordance to Rule 12.1 of the ESOS.

# DIRECTORS' STATEMENTS

**Share options (cont'd)**

(b) **Other information**

Since the commencement of the ESOS till the end of the financial year:

(i) Except for Mr. Seow Soon Yong and Mr. Chia Sin Cheng, no other participants have received 5% or more of the total number of options available under the ESOS;

(ii) No options that entitle the holder to participate, by virtue of the options, in any share issue of any other corporation have been granted; and

(iii) The options under the ESOS have been granted at a discount of 20% of the average market price for the 5 consecutive market days preceding the date of the grants, except for the options granted on 25 July 2008 and 12 March 2009 which were based on the average market price for the 5 consecutive market days preceding the date of the grants.

**Audit Committee**

The Audit Committee (AC) comprises three members, namely Mr. Goon Kok Loon (Chairman), Mr. Lim Ghim Siew, Henry and Professor Liew Jat Yuen, Richard. The AC comprises entirely of non-executive and independent directors.

The AC performs the functions specified in Section 201B(5) of the Singapore Companies Act, Cap. 50 and the Listing Manual of the SGX-ST. It meets with the external auditors, reviews the audit plan, the results of their examination and findings and their evaluation of the system of internal controls. The AC also reviews all the non-audit services provided by the external auditors to ensure that such services will not affect the independence of the external auditors together with their appointment and re-appointment.

In addition, the AC reviews the quarterly announcement and annual financial statements and all interested party transactions.

The AC also met up with the external auditors without the presence of management to discuss any matters that should be discussed privately with the AC.

Further information regarding the AC is disclosed in the Report on Corporate Governance.

# DIRECTORS' STATEMENTS

**Auditor**

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

On behalf of the board of directors,

Seow Soon Yong
Director

Chia Sin Cheng
Director

Singapore
06 April 2020

# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December
To the Members of Yongnam Holdings Limited

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Yongnam Holdings Limited (the Company) and its subsidiaries (collectively, the Group), which comprise the balance sheets of the Group and the Company as at 31 December 2019, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) (SFRS(I)) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

### Basis for Opinion

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

### Key Audit Matters

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

We have fulfilled our responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

**Accounting for construction contracts**

The Group is involved in construction projects for which it applies the input method in recognising revenue over time. The amount of revenue recognised in a year on these projects is dependent on the stage of completion of the projects, which is determined based on actual costs incurred to-date to the total expected costs for each project. This is determined to be a key audit matter due to the subjectivity involved in determining the stage of completion, which in turn may have a significant impact on the results of the Group.

As part of our audit, we evaluated the design and tested the effectiveness of internal controls with respect to the project costs estimation process and accounting for construction contracts. We performed audit procedures on individually significant projects relating to contractual terms and conditions, revenue and costs incurred. We also performed procedures with respect to project cost calculations and forecasts of project profitability, and management's assessment thereof. In connection with this, we discussed a range of financial and operational risks, ongoing disputes and related estimation uncertainties with the Group's various project directors and managers and management and reviewed correspondences with contractors in assessing whether these have been factored in the accounting for construction contracts. With the knowledge gained from those discussions and the results of our audit procedures, we assessed the appropriateness of variable consideration, including the estimation of claims and variation orders, as well as the appropriateness of provision for onerous contracts and carrying values of the related contract assets for significant projects and considered whether these estimates showed any evidence of management bias.

Our assessment was based on the historical accuracy of management's estimation of claims and variation orders in previous periods, identification and analysis of changes in assumptions used in the estimation process from prior periods, and an assessment of the consistency of assumptions used across projects. We also assessed the mathematical accuracy of the revenue calculations based on the stage of completion and considered the implications of changes in estimates.

Furthermore, we assessed the adequacy of disclosures of significant accounting policies for construction contracts and contract assets/liabilities and the related risks (liquidity risk and credit risk) in Notes 2.20(a), 3.2(a), 16, 30(b) and 30(d).

**Impairment of certain steel beams and columns**

A history of low utilisation and recent losses gave rise to indication of impairment for certain of the Group's steel beams and columns. The impairment assessment was significant to our audit due to the carrying amounts of the certain steel beams and columns' (representing 54% of the Group's total non-current assets as at 31 December 2019) and the judgment involved in making various assumptions in determining the underlying value-in-use computation in the impairment assessment. The assessment required management to make various assumptions such as the discount rate, the projected revenue growth rate, the expected revenue and costs used in the cash flow forecast. As such, we considered the impairment assessment of certain steel beams and columns to be a key audit matter.

# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December
To the Members of Yongnam Holdings Limited

**Impairment of certain steel beams and columns (cont'd)**

Our audit procedures included, amongst others, evaluating and assessing the key assumptions and methodology used by management in the cash flow forecast. We have assessed management's assumptions such as management's projection of the success rate in winning construction projects and tested the robustness of management's budgeting process. We have also evaluated management's assumptions by comparing the discount rate and revenue growth rate used against external data. We used our internal valuation specialist to assist us with the review of the methodology used and the assessment of certain key assumptions such as the discount rate. We also performed sensitivity analysis on certain key assumptions. Management's conclusion on the impairment test and the related disclosures are included in Notes 3.2(c) and 11. We have evaluated the adequacy of those disclosures in the consolidated financial statements.

## Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Directors for the Financial Statements

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

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

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

# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2019
To the Members of Yongnam Holdings Limited

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December
To the Members of Yongnam Holdings Limited

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

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

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

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

**Report on Other Legal and Regulatory Requirements**

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Wei Hock.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

06 April 2020

# CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2019

| | Note | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|---|
| **Revenue** | 4 | 196,273 | 161,449 |
| Cost of sales | | (211,110) | (207,302) |
| **Gross loss** | | (14,837) | (45,853) |
| Other income | 5 | 1,675 | 500 |
| General and administrative expenses | | (33,918) | (12,731) |
| Finance income | 6 | 15 | 4 |
| Finance costs | 7 | (12,898) | (8,033) |
| Share of results of an associated company, net of tax | | 399 | 60 |
| **Loss before taxation** | 8 | (59,564) | (66,053) |
| Taxation | 9 | 4,861 | 11,844 |
| **Net loss for the year** | | (54,703) | (54,209) |
| **Attributable to:** | | | |
| Owners of the Company | | (53,755) | (51,019) |
| Non-controlling interests | | (948) | (3,190) |
| **Net loss for the year** | | (54,703) | (54,209) |
| **Loss per share (cents)** | | | |
| - Basic | 10 | (10.29) | (9.76) |
| - Diluted | 10 | (10.29) | (9.76) |

*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 2019

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Loss, net of tax** | (54,703) | (54,209) |
| **Item that may be reclassified subsequently to profit or loss** | | |
| Foreign currency translation | (208) | 542 |
| **Total comprehensive loss for the year, net of tax** | (54,911) | (53,667) |
| **Attributable to:** | | |
| Owners of the Company | (53,963) | (50,477) |
| Non-controlling interests | (948) | (3,190) |
| **Total comprehensive loss for the year** | (54,911) | (53,667) |

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

# BALANCE SHEETS

As at 31 December 2019

| | Note | Group 2019 $'000 | Group 2018 $'000 | Company 2019 $'000 | Company 2018 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | 268,677 | 314,804 | – | – |
| Right-of-use assets | 14 | 48,058 | – | – | – |
| Investments in subsidiaries | 12 | – | – | 179,442 | 167,313 |
| Investment in associate | 13 | 459 | 60 | – | – |
| Deferred tax assets | 9(c) | 5,056 | – | – | – |
| | | 322,250 | 314,864 | 179,442 | 167,313 |
| **Current assets** | | | | | |
| Prepayments | | 4,373 | 5,645 | 4 | 4 |
| Inventories | 15 | 27,120 | 45,365 | – | – |
| Contract assets | 16 | 70,576 | 63,642 | – | – |
| Trade receivables | 17 | 21,897 | 29,851 | – | – |
| Other receivables and deposits | 18 | 6,655 | 4,505 | 9 | 9 |
| Cash and cash equivalents | 19 | 9,117 | 14,264 | 21 | 41 |
| | | 139,738 | 163,272 | 34 | 54 |
| **Current liabilities** | | | | | |
| Contract liabilities | 16 | 20,225 | 15,129 | – | – |
| Trade payables | 20 | 58,509 | 65,985 | – | – |
| Other payables and accruals | 21 | 12,994 | 10,369 | 556 | 860 |
| Borrowings | 22 | 101,369 | 47,099 | – | – |
| Hire purchase creditors | 28(c) | 1,928 | 2,292 | – | – |
| Lease liabilities | 14 | 7,087 | – | – | – |
| Income tax payable | | 525 | 5 | – | – |
| | | 202,637 | 140,879 | 556 | 860 |
| **Net current assets/(liabilities)** | | (62,899) | 22,393 | (522) | (806) |

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

# BALANCE SHEETS

As at 31 December 2019

| | Note | Group 2019 $'000 | Group 2018 $'000 | Company 2019 $'000 | Company 2018 $'000 |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Borrowings | 22 | 9,899 | 87,511 | – | – |
| Hire purchase creditors | 28(c) | 2,591 | 3,167 | – | – |
| Lease liabilities | 14 | 44,475 | – | – | – |
| Convertible bond (liabilities) | 23 | 10,334 | – | 10,334 | – |
| Convertible bond (derivative) | 23 | 1,299 | – | 1,299 | – |
| Deferred tax liabilities | 9(c) | – | 915 | – | – |
| | | 68,598 | 91,593 | 11,633 | – |
| **Net assets** | | 190,753 | 245,664 | 167,287 | 166,507 |
| **Equity** | | | | | |
| Share capital | 24 | 141,445 | 141,445 | 141,445 | 141,445 |
| Capital reserves | 25 | 6,837 | 6,837 | – | – |
| Share option reserve | 26 | 12,800 | 12,800 | 12,800 | 12,800 |
| Foreign currency translation reserve | 27 | (6,493) | (6,285) | – | – |
| Retained earnings | | 45,261 | 99,016 | 13,042 | 12,262 |
| | | 199,850 | 253,813 | 167,287 | 166,507 |
| Non-controlling interests | | (9,097) | (8,149) | – | – |
| **Total equity** | | 190,753 | 245,664 | 167,287 | 166,507 |

*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 2019

| | Note | Group 2019 $'000 | Group 2018 $'000 | Company 2019 $'000 | Company 2018 $'000 |
|---|---|---|---|---|---|
| **Share capital** | 24 | | | | |
| Balance at beginning and end of year | | 141,445 | 141,445 | 141,445 | 141,445 |
| **Capital reserves** | 25 | | | | |
| Balance at beginning and end of year | | 6,837 | 6,837 | – | – |
| **Share option reserve** | 26 | | | | |
| Balance at beginning and end of year | | 12,800 | 12,800 | 12,800 | 12,800 |
| **Foreign currency translation reserve** | 27 | | | | |
| Balance at beginning of year | | (6,285) | (6,827) | – | – |
| Other comprehensive income for the year | | (208) | 542 | – | – |
| Balance at end of year | | (6,493) | (6,285) | – | – |
| **Retained earnings** | | | | | |
| Balance at beginning of year | | 99,016 | 150,035 | 12,262 | 12,234 |
| (Loss)/profit for the year | | (53,755) | (51,019) | 780 | 28 |
| Balance at end of year | | 45,261 | 99,016 | 13,042 | 12,262 |
| **Non-controlling interests** | | | | | |
| Balance at beginning of year | | (8,149) | (4,959) | – | – |
| Loss for the year | | (948) | (3,190) | – | – |
| Balance at end of year | | (9,097) | (8,149) | – | – |
| **Total equity** | | 190,753 | 245,664 | 167,287 | 166,507 |

*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 2019

| | Note | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | (59,564) | (66,053) |
| Add/(less): | | | |
| Finance income | 6 | (15) | (4) |
| Finance costs | 7 | 12,898 | 8,033 |
| Net gain on fair value of derivative instruments held at fair value through profit or loss | 5 | (1,403) | – |
| Issuance cost on convertible bond (derivative) | 8 | 91 | – |
| Depreciation on property, plant and equipment | 8 | 25,168 | 29,905 |
| Depreciation on right of use assets | 8 | 7,850 | – |
| Consumption allowance for steel beams and columns | 8 | 6,059 | 4,067 |
| (Write back)/provision for onerous contracts | 8 | (212) | 393 |
| Impairment on trade receivables | 8 | 2,156 | – |
| Loss/(gain) on disposal of property, plant and equipment | 8 | 15,138 | (2,911) |
| Share of results of an associated company | | (399) | (60) |
| Effects of changes in foreign exchange | | (100) | (330) |
| **Operating cash flows before changes in working capital** | | 7,667 | (26,960) |
| Decrease in trade receivables, other receivables and deposits and contract assets | | 15,216 | 22,573 |
| Increase/(decrease) in trade payables, other payables and accruals and contract liabilities | | 601 | (2,669) |
| Decrease/(increase) in inventories | | 18,241 | (6,774) |
| **Cash flows generated from/(used in) operations** | | 41,725 | (13,830) |
| Income tax paid | | (590) | (18) |
| Interest received | 6 | 15 | 4 |
| Interest paid | | (12,035) | (8,033) |
| **Net cash flows generated from/(used in) operating activities** | | 29,115 | (21,877) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | 11(a) | (26,951) | (32,878) |
| Proceeds from disposal of property, plant and equipment | | 12,685 | 18,030 |
| **Net cash flows used in investing activities** | | (14,266) | (14,848) |

*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 2019

| | Note | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of convertible bonds | 23 | 12,500 | – |
| Issuance cost on convertible bond | 23 | (418) | – |
| Proceeds from borrowings | 22(c) | 2,921 | 100,113 |
| Repayment of borrowings | 22(c) | (26,137) | (56,776) |
| Payment of principal payment of lease liabilities | 14 | (6,162) | – |
| Payments for hire purchase instalments | 28 | (2,688) | (2,547) |
| **Net cash flows (used in)/generated from financing activities** | | (19,984) | 40,790 |
| **Net (decrease)/increase in cash and cash equivalents** | | (5,135) | 4,065 |
| Effect of exchange rate changes on cash and cash equivalents | | (12) | 4 |
| Cash and cash equivalents at beginning of year | | 14,264 | 10,195 |
| **Cash and cash equivalents at end of year** | | 9,117 | 14,264 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 1. Corporate information

Yongnam Holdings Limited (the Company) is a limited liability company incorporated and domiciled in Singapore and listed on the Singapore Exchange Securities Trading Limited.

The registered office and principal place of business of the Company is located at 51 Tuas South Street 5, Singapore 637644.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 12 to the financial statements. There have been no significant changes in the nature of the activities during the financial year.

## 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 (International) (SFRS(I)).

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.

**Going concern assumption**

As at 31 December 2019, the Group and Company's is in a net current liability position of $62,899,000 (2018: net current assets $22,393,000) and $522,000 (2018: $806,000) respectively. Subsequent to balance sheet date, the Group has secured refinancing of its transferrable term loan of $75,000,000 which is due by 31 December 2020. The refinanced loan is repayable over the next 13 months with the final repayment being due on 31 January 2022. With the refinancing obtained, the Group and Company is able to meet its liabilities as and when it falls due.

## 2. Summary of significant accounting policies (cont'd)

### 2.2 *Changes in accounting policy*

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 which are effective for annual periods beginning on or after 1 January 2019. The adoption of these standards did not have any effect on the financial performance or position of the Group except for the adoption of SFRS(I) 16 *Leases* as described below.

**SFRS(I) 16 Leases**

SFRS(I) 16 leases supersedes SFRS(I) 1-17 Leases and SFRS(I) INT 4 Determining whether an Arrangement contains a Lease, SFRS(I) INT1-15 Operating Leases-Incentives and SFRS(I) INT1-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

<u>Transition to SFRS(I) 16</u>

The Group has lease contracts for various items of land, property and equipment. Before the adoption of SFRS(I) 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption of SFRS(I) 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Lessor accounting under SFRS(I) 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, SFRS(I) 16 does not have an impact for leases where the Group is the lessor.

The Group adopted SFRS(I)16 using the modified retrospective method of adoption, with the date of initial application of 1 January 2019. Under this method, the lease liability was measured at present value of the remaining lease payments discounted using the incremental borrowing rate at the date of initial application.

The Company adopted to measure the right-of-use asset at an amount equal to the lease liability. The Company will also separately recognise the interest expense on the lease liability and the depreciation expense on the lease asset.

The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 at the date of initial application.

**2. Summary of significant accounting policies (cont'd)**

**2.2 *Changes in accounting policy (cont'd)***

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

Transition to SFRS(I) 16 (cont'd)

*Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under SFRS(I) 1-17). The requirements of SFRS(I) 16 were applied to these leases from 1 January 2019.

*Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for most leases were recognised based on the carrying amount equal to lease liabilities, adjusted for previously recognised prepaid or accrued lease payments at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.
The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

## 2. Summary of significant accounting policies (cont'd)

### 2.2 *Changes in accounting policy (cont'd)*

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

Transition to SFRS(I) 16 (cont'd)

The effect of adoption of SFRS(I) 16 as at 1 January 2019 is, as follows:

| | **Group** |
|---|---|
| | **$'000** |
| **Assets** | |
| Right-of-use assets | 53,692 |
| **Total assets** | 53,692 |
| **Liabilities** | |
| Lease Liabilities | 53,692 |
| **Total liabilities** | 53,692 |

Based on the above, as at 1 January 2019:

- Right-of-use assets of $53,692,000 were recognised and presented on the balance sheet.
- Lease liabilities of $53,692,000 were recognised and presented on the balance sheet.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

| | **Group** |
|---|---|
| | $'000 |
| **Assets** | |
| Operating lease commitment as at 31 December 2018 | 70,919 |
| Discounting effect using weighted average incremental borrowing rate of 4.82% | (16,593) |
| Less: | |
| Commitments relating to short-term leases | (1,035) |
| Add: | |
| Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018 | 401 |
| Lease liabilities as at 1 January 2019 | 53,692 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 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 not yet effective:

| *Description* | *Effective for annual periods beginning on or after* |
|---|---|
| Amendments to References to the Conceptual Framework in SFRS(I) Standards | 1 January 2020 |
| Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7: *Interest Rate Benchmark Reform* | 1 January 2020 |
| Amendments to SFRS(I) 3 *Definition of a Business* | 1 January 2020 |
| *Amendments to SFRS(I) 1-1 and SFRS(I) 1-8 Definition of Material* | 1 January 2020 |
| Amendments to SFRS(I) 37 *Provisions, Contingent Liabilities and Contingent Assets* | 1 January 2020 |
| Amendments to SFRS(I) 10 and SFRS(I) 1-28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | Date to be determined |

The directors expect that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application.

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

(a) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company 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 Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions 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 interest even if that results in a deficit balance.

## 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.

Non-controlling interest in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of net assets of the acquire are recognised on the acquisition date at either fair value, or the noncontrolling interest's proportionate share of the acquiree's identifiable net assets.

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, form the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 2. Summary of significant accounting policies (cont'd)

### 2.5 *Foreign currency*

(a) *Transactions and balances (cont'd)*

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 except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which 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 the foreign operation.

(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 average exchange rates for the year. 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.

### 2.6 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset, if and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Subsequent to recognition, property, plant and equipment other than freehold land are measured at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of property, plant and equipment are replaced, the Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacement when that cost is incurred if the recognition criteria are met. 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.

**2. Summary of significant accounting policies (cont'd)**

***2.6 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 property | – | Over remaining lease period |
| Plant and machinery | – | 3 to 10 years |
| Motor vehicles | – | 3 to 6 years |
| Office equipment and furniture | – | 3 to 5 years |
| Steel beams and columns | – | 15 years |
| Cranes | – | 10 and 20 years |

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 derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

Allowance is made for consumption of steel beams and columns deployed to projects which are not expected to be physically recoverable upon the completion of the projects.

***2.7 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 any impairment losses.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 2. Summary of significant accounting policies (cont'd)

### 2.8 *Joint ventures and associates*

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint arrangement is classified either as joint operation or joint venture, based on the rights and obligations of the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the arrangement is a joint venture.

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 represents 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.

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 the 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 associates or joint venture. 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 venture are prepared as at the same reporting date as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

**2. Summary of significant accounting policies (cont'd)**

**2.9 *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.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

*Subsequent measurement*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are:

(a) *Amortised cost*

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

(b) *Fair value through profit or loss*

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.

*De-recognition*

A financial asset is derecognised 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 2. Summary of significant accounting policies (cont'd)

### 2.10 *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 liability not at fair value through profit or loss, directly attributable transaction costs.

*Subsequent measurement*

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 rate 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. On de-recognition, the difference between carrying amounts and the consideration paid is recognised in profit or loss.

### 2.11 *Impairment of financial assets*

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

**2. Summary of significant accounting policies (cont'd)**

**2.11 *Impairment of financial assets (cont'd)***

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

**2.12 *Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and at bank.

**2.13 *Convertible bonds***

On issuance of the convertible bonds, the proceeds are allocated between the embedded equity conversion option and the liability component. The embedded equity conversion option is recognised at its fair value. The liability component is recognised as the difference between total proceeds and the fair value of the equity conversion option.

The embedded equity conversion option is subsequently carried at its fair value with fair value changes recognised in profit or loss. The liability component is carried at amortised cost until the liability is extinguished on conversion or redemption.

When an equity conversion option is exercised, the carrying amounts of the liability component and the equity conversion option are derecognised with a corresponding recognition of share capital.

**2.14 *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 is accounted for as follows:

- Steel materials: purchase costs on a first-in first-out basis
- Consumable materials: purchase costs on a weighted average basis

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

For the financial year ended 31 December 2019

## 2. Summary of significant accounting policies (cont'd)

### 2.15 *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 group 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 are recognised in profit or loss.

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.

### 2.16 *Leases*

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**2. Summary of significant accounting policies (cont'd)**

***2.16 Leases (cont'd)***

*Group as a lessee (cont'd)*

(a) *Right-of-use assets*

The Group recognises right-to-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter lease term and the estimated useful lives of the assets as follows:

| | | |
|---|---|---|
| Leasehold property | – | Over remaining lease period |
| Lease equipment | – | 2 to 3 years |

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

**2. Summary of significant accounting policies (cont'd)**

**2.16 *Leases (cont'd)***

*Group as a lessee (cont'd)*

(b) *Lease liabilities (cont'd)*

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(c) *Short-term leases*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

(d) *Sale and leaseback*

At commencement date, the Group assesses sale and leaseback transactions to determine whether a sale has occurred in accordance with SFRS (I) 15.

Upon identification of a sale, the Group measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained. Additionally, the Group recognises only the amount of any gain or loss that relates to the rights transferred. The gain arising from sale and leaseback transaction is reflected in Note 14.

*Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. The accounting policy for rental income is set out in Note 2.20(c).

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 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 economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources 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 *Borrowing costs*

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### 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 national 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 accrue to the employees. The estimated liability for leave is recognised for services rendered by the employees up to the end of the reporting period.

**2. Summary of significant accounting policies (cont'd)**

***2.19 Employee benefits (cont'd)***

(c) *Share option plans*

Employees (including directors and senior executives) of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled share-based payment transactions with employees is measured by reference to the fair value of the options at the date on which the options are granted, which takes into account market conditions and non-vesting conditions. This cost is recognised in profit or loss, with a corresponding increase in the employee share option reserve, over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense. The share option reserve will be retained upon expiry of the share options.

***2.20 Revenue and other income***

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(a) *Construction revenue*

The Group is involved in construction projects whereby they are restricted contractually from directing the product for another use as they are being constructed and has an enforceable right to payment for performance completed to date. Revenue is recognised over time using input method, based on the construction costs incurred to date as a proportion of the estimated total construction costs to be incurred.

Progress billings to the customers are based on a payment schedule in the contract and are typically triggered upon achievement of specified construction milestones. A contract asset is recognised when the Group has performed under the contract but has not yet billed the customer. Conversely, a contract liability is recognised when the Group has not yet performed under the contract but has received advanced payments from the customer. Contract assets are transferred to receivables when the rights to consideration become unconditional. Contract liabilities are recognised as revenue as the Group performs under the contract.

## 2. Summary of significant accounting policies (cont'd)

### 2.20 *Revenue and other income (cont'd)*

(a) *Construction revenue (cont'd)*

For contract modifications that add distinct goods or services but not at their standalone selling prices, the Group combines the remaining consideration in the original contract with the consideration promised in the modification to create a new transaction price that is then allocated to all remaining performance obligations. For contract modifications that do not add distinct goods or services, the Group accounts for the modification as continuation of the original contract and is recognised as a cumulative adjustment to revenue at the date of modification.

Incremental costs of obtaining a contract are capitalised if these costs are recoverable. Costs to fulfil a contract are capitalised if the costs relate directly to the contract, generate or enhance resources used in satisfying the contract and are expected to be recovered. Other Contract costs are expensed as incurred.

Capitalised contract costs are subsequently amortised on a systematic basis as the Group recognises the related revenue. An impairment loss is recognised in profit or loss to the extent that the carrying amount of the capitalised contract costs exceeds the remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the contract costs relates less the costs that relate directly to providing the goods and that have not been recognised as expenses.

(b) *Interest income*

Interest income is recognised using the effective interest method.

(c) *Rental income*

Rental income arises from operating leases income from the subletting of yard premises and is accounted for on a straight-line basis over the lease term.

### 2.21 *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 by the end of the reporting period, in the countries where the Group operates and generates taxable income.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 2. Summary of significant accounting policies (cont'd)

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

(a) *Current income tax (cont'd)*

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.

(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, 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 income 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

For the financial year ended 31 December 2019

**2. Summary of significant accounting policies (cont'd)**

***2.21 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 each 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 income taxes relate to the same taxable entity and the same taxation authority.

(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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 2. Summary of significant accounting policies (cont'd)

### 2.22 *Share capital and share issuance expenses*

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

### 2.23 *Government grants*

Government grants are recognised 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 Group recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income are deducted in reporting the related expenses.

## 3. Significant accounting estimates and judgements

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.

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

In the process of applying the Group's accounting policies, management makes judgements, apart from those involving estimations, which affect the amounts recognised in the consolidated financial statements. In management's opinion, there are no key judgements which significantly impact financial statement amounts.

### 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.

## 3. Significant accounting estimates and judgements (cont'd)

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

(a) *Revenue recognition on construction contracts*

For construction contracts where the Group satisfies its performance obligations over time, management has determined that a cost-based input method provides a faithful depiction of the Group's performance in transferring control of the construction contracts to the customers, as it reflects the Group's efforts incurred to date relative to the total inputs expected to be incurred for the construction contracts. The measure of progress is based on the costs incurred to date as a proportion of total costs expected to be incurred up to the completion of the construction contracts.

Significant assumptions are required to estimate the total construction and other related costs and the recoverable variation works that affect the progress of construction contracts. In making these estimates, management has relied on past experience and knowledge of the project directors and managers. Management takes into consideration the historical trends of the amounts incurred in its other construction contracts of similar nature.

Contract revenue and contract costs recognised for the financial year ended 31 December 2019 are disclosed in the consolidated income statement. Contract assets and liabilities are disclosed in Note 16 to the financial statements.

(b) *Depreciation of plant and machinery, steel beams and columns and cranes*

The costs of plant and machinery, steel beams and columns and cranes are depreciated on a straight-line basis over their estimated economic useful lives. Management estimates the useful lives of these plant and machinery, steel beams and columns and cranes to be 3 to 10 years, 15 years and 10 to 20 years respectively. The residual values of the steel beams and columns are estimated to be $430 (2018: $430) per ton.

Changes in the expected level of usage could impact the estimated economic useful lives and the residual values of these assets, therefore estimates of future depreciation charges could be revised if expectations differ from previous estimates. As at 31 December 2019, the carrying amounts of plant and machinery, steel beams and columns and cranes amounted to $210,998,000 (2018: $252,739,000). A 5% difference in the expected useful lives of these assets from management's estimate would result in approximately 1.86% (2018: 2.30%) variance in the Group's loss for the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 3. Significant accounting estimates and judgements (cont'd)

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

(c) *Impairment assessment of certain steel beams and columns*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is determined based on value in use calculations. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budgeted net cash inflows from the specialist civil engineering business segment for the average useful lives of the steel beams and columns. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows. The discount rate used in the value-in-use calculation is 7.3% (2018: 8.8%). The Group also performed sensitivity analysis on key assumptions, including discount rate and expected future cash inflows and the projected revenue growth rate, to determine that reasonably possible change to the assumptions would not result in a material difference to the outcome of the impairment test.

The carrying amount of the Group's steel beams and columns is disclosed in Note 11. As at 31 December 2019, the carrying amount of certain steel beams and columns which was subjected to impairment assessment amounted to $175,518,000 (2018: $197,835,000). No impairment loss was recorded during the year (2018: $nil).

## 4. Revenue

(a) ***Disaggregation of revenue***

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| *Major product or service line:* | | |
| Structural steelworks | 70,690 | 81,656 |
| Specialist civil engineering | 92,966 | 64,252 |
| Mechanical engineering | 90 | 47 |
| Design and build | 26,011 | 11,071 |
| Others | 6,516 | 4,423 |
| | 196,273 | 161,449 |

## 4. Revenue (cont'd)

### (a) *Disaggregation of revenue (cont'd)*

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| *Timing of transfer of goods or services:* | | |
| Over time | 189,757 | 157,026 |
| At a point in time | 6,516 | 4,423 |
| | 196,273 | 161,449 |

### (b) *Transaction price allocated to remaining performance obligation*

The aggregate amount of transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations as at 31 December 2019 is $405 million (2018: $308 million). This amount has not included the following:

- Performance obligations for which the Group has applied the practical expedient not to disclose information about its remaining performance obligations if:
  - The performance obligation is part of a contract that has an original expected duration for one year or less, or
  - The Group recognises revenue in the amount to which the Group has a right to invoice customers in amounts that correspond directly with the value to the customer of the Group's performance completed to date.
- Variable consideration that is constrained and therefore is not included in the transaction price.

The Group expects to recognise all its unsatisfied (or partially unsatisfied) performance obligations as at 31 December 2019 within 5 years of the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 5. Other income

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Rental income | 115 | 106 |
| Government grants | 1 | 347 |
| Other operating income | 156 | 47 |
| Net gain on fair value of derivative instruments held at fair value through profit or loss | 1,403 | – |
| | 1,675 | 500 |

## 6. Finance income

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Interest income from short term deposits | 15 | 4 |

## 7. Finance costs

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Interest expense: | | |
| – Borrowings | 6,647 | 6,121 |
| – Hire purchase | 204 | 202 |
| – Convertible bond | 1,301 | – |
| – Lease liabilities | 2,917 | – |
| – Other interest | 160 | – |
| Bank charges | 1,669 | 1,710 |
| | 12,898 | 8,033 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 8. Loss before taxation

The following items have been charged/(credited) in arriving at loss before taxation:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Audit fees: | | |
| – Auditor of the Company | 241 | 237 |
| – Other auditors | 28 | 27 |
| Non–audit fees: | | |
| – Auditor of the Company | 35 | 65 |
| – Other auditors | 9 | 8 |
| Rental expense | 1,309 | 8,057 |
| Depreciation of property, plant and equipment [1] (Note 11) | 25,168 | 29,905 |
| Depreciation of right-of-use assets [1] (Note 14) | 7,850 | – |
| Loss/(gain) on disposal of property, plant and equipment | 15,138 | (2,911) |
| Consumption allowance for steel beams and columns (Note 11) | 6,059 | 4,067 |
| Impairment on trade receivables | 2,156 | – |
| Employee benefits expense [2] | 52,616 | 60,781 |
| Issuance cost on convertible bond (derivative) | 91 | – |
| Steel materials recognised as an expense in cost of sales (Note 15) | 51,911 | 32,969 |
| (Write back)/provision for onerous contracts | (212) | 393 |

[1] The following had been allocated to construction costs incurred to-date:

| | **2019** | **2018** |
|---|---|---|
| | $'000 | $'000 |
| Depreciation of property, plant and equipment | 22,838 | 27,252 |
| Depreciation of right-of-use assets | 7,513 | – |

[2] This represents total employee benefits expense for the year, out of which $44,397,000 (2018: $51,395,000) had been allocated to construction costs incurred to date. Included in total employee benefits expense are contributions to defined contribution schemes of $1,847,000 (2018: $2,331,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 9. Taxation

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

The major components of income tax credit for the years ended 31 December are:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| **Income statement:** | | |
| Current income tax | | |
| – Current income taxation | (390) | (29) |
| – (Under)/over provision in respect of prior years | (653) | 1 |
| Deferred income tax | | |
| – Origination and reversal of temporary differences | 7,896 | 11,887 |
| – (Under)/over provision in respect of prior years | (1,926) | 2 |
| Withholding tax expenses | (66) | (17) |
| | 4,861 | 11,844 |

## 9. Taxation (cont'd)

(b) ***Relationship between tax credit and accounting loss***

The reconciliation between tax credit and the product of accounting loss multiplied by the applicable tax rate for the years ended 31 December are as follows:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Loss before taxation | (59,564) | (66,053) |
| Taxation at statutory tax rate of 17% (2018: 17%) | (10,126) | (11,229) |
| Effect of different tax rates in other countries | 201 | (1,086) |
| Non-deductible expenses | 1,580 | 225 |
| Income not subject to taxation | (372) | (216) |
| Deferred tax assets not recognised | 993 | 602 |
| Effect of tax benefits | – | (258) |
| Utilisation of deferred tax assets previously not recognised | (28) | (14) |
| Under/(over) provision in respect of prior years | 2,579 | (3) |
| Others | 312 | 135 |
| Taxation | (4,861) | (11,844) |

The corporate income tax rates applicable to the Malaysian companies, Hong Kong subsidiary, India subsidiary and Myanmar subsidiary are 24%, 16.5%, 25% and 25% (2018: 24%, 16.5%, nil and 25%) respectively.

(c) ***Deferred taxation***

Deferred tax as at 31 December relates to the following:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| **Deferred tax liabilities:** | | |
| Differences in depreciation for tax purpose | (28,670) | (40,144) |
| **Deferred tax assets:** | | |
| Unutilised tax losses and capital allowances | 32,244 | 38,675 |
| Sundry provisions | 1,482 | 554 |
| Deferred tax assets/(liabilities), net | 5,056 | (915) |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 9. Taxation (cont'd)

### (c) *Deferred taxation (cont'd)*

Certain subsidiaries have unutilised tax losses of approximately $19,989,000 (2018: $14,148,000) 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 the certain provisions of the tax legislation of the respective countries in which the companies operate.

## 10. Loss per share

Basic loss per share is calculated by dividing the net loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted loss per share is calculated on the same basis as that of basic earnings per share except that the weighted average number of ordinary shares has been adjusted for the dilution effects of all the dilutive potential ordinary shares.

The following reflects the loss and share data used in the computation of basic and diluted loss per share for the years ended 31 December are as follows:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Net loss attributable to ordinary equity holders of the Company | (53,755) | (51,019) |
| | No. of shares '000 | No. of shares '000 |
| Weighted average number of ordinary shares for basic and diluted earnings per share computation | 522,603 | 522,603 |

Convertible bonds have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the current financial year presented.

## 11. Property, plant and equipment

| Group | Freehold land $'000 | Leasehold property $'000 | Plant and machinery $'000 | Motor Vehicles $'000 | Office equipment and furniture $'000 | Steel beams and columns $'000 | Cranes $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 January 2018 | 30,162 | 56,427 | 42,113 | 6,408 | 8,196 | 346,144 | 54,270 | 543,720 |
| Additions | – | 73 | 1,515 | 1,318 | 505 | 31,096 | 1,126 | 35,633 |
| Disposals/write-offs | – | – | (10,745) | (808) | (1,444) | (19,281) | (2,497) | (34,775) |
| Translation adjustments | 64 | 2 | 30 | 7 | 6 | 880 | 134 | 1,123 |
| At 31 December 2018 and 1 January 2019 | 30,226 | 56,502 | 32,913 | 6,925 | 7,263 | 358,839 | 53,033 | 545,701 |
| Additions | – | – | 6 | 197 | 290 | 28,178 | 28 | 28,699 |
| Disposals/write-offs | – | – | – | (634) | (128) | (41,966) | (8,542) | (51,270) |
| Transfers* | – | – | – | – | – | (33,530) | – | (33,530) |
| Translation adjustments | (33) | (1) | (13) | (3) | – | (135) | (50) | (235) |
| At 31 December 2019 | 30,193 | 56,501 | 32,906 | 6,485 | 7,425 | 311,386 | 44,469 | 489,365 |

* Relates to steel beams and columns transferred to ongoing projects and is currently capitalised in contract assets.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

**11. Property, plant and equipment (cont'd)**

| Group | Freehold land $'000 | Leasehold property $'000 | Plant and machinery $'000 | Motor Vehicles $'000 | Office equipment and furniture $'000 | Steel beams and columns $'000 | Cranes $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment loss** | | | | | | | | |
| At 1 January 2018 | – | 25,101 | 31,790 | 4,220 | 6,676 | 111,006 | 37,448 | 216,241 |
| Depreciation | – | 3,282 | 2,988 | 923 | 720 | 17,204 | 4,788 | 29,905 |
| Disposals/write-offs | – | – | (9,335) | (691) | (1,388) | (6,564) | (1,678) | (19,656) |
| Consumption allowance # | – | – | – | – | – | 4,067 | – | 4,067 |
| Translation adjustments | – | (3) | 14 | 6 | 5 | 225 | 93 | 340 |
| At 31 December 2018 and 1 January 2019 | – | 28,380 | 25,457 | 4,458 | 6,013 | 125,938 | 40,651 | 230,897 |
| Depreciation | – | 3,243 | 1,481 | 841 | 691 | 15,682 | 3,230 | 25,168 |
| Disposals/write-offs | – | – | – | (627) | (71) | (18,194) | (6,383) | (25,275) |
| Transfers* | – | – | – | – | – | (16,079) | – | (16,079) |
| Consumption allowance # | – | – | – | – | – | 6,059 | – | 6,059 |
| Translation adjustments | – | (1) | (10) | (2) | – | (26) | (43) | (82) |
| At 31 December 2019 | – | 31,622 | 26,928 | 4,670 | 6,633 | 113,380 | 37,455 | 220,688 |
| **Net book value** | | | | | | | | |
| At 31 December 2018 | 30,226 | 28,122 | 7,456 | 2,467 | 1,250 | 232,901 | 12,382 | 314,804 |
| At 31 December 2019 | 30,193 | 24,879 | 5,978 | 1,815 | 792 | 198,006 | 7,014 | 268,677 |

# Relates to steel beams and columns deployed to Specialist Civil Engineering projects which are not expected to be physically recovered.
* Relates to steel beams and columns transferred to ongoing projects and is currently capitalised in contract assets.

**11. Property, plant and equipment (cont'd)**

(a) ***Assets under hire purchase***

During the financial year, the Group acquired property, plant and equipment amounting to $28,699,000 (2018: $35,633,000) of which $1,748,000 (2018: $2,755,000) were acquired by means of hire purchase. The cash outflow on acquisition of property, plant and equipment excluding those on hire purchases, amounted to $26,951,000 (2018: $32,878,000).

As at 31 December 2019, the Group has certain cranes, motor vehicles and plant and machinery under hire purchase contracts with a net book value of $7,321,000 (2018: $8,802,000).

(b) ***Assets pledged as security***

In addition to assets held under finance leases, the Group's freehold land, leasehold property and certain steel beams and columns with a carrying amount of $230,477,000 (2018: $255,806,000) are mortgaged to secure the Group's borrowings (Note 22).

(c) ***Details of leasehold property***

The details of the leasehold property held by the Group as at 31 December 2019 and 31 December 2018 are as follows:

| **Location** | **Site area (sq metres)** | **Build-up area (sq metres)** | **Tenure of lease** |
|---|---|---|---|
| 51 Tuas South Street 5 Singapore | 75,635 | 30,253 | 30 years expiring on 31 March 2028 |

**12. Investment in subsidiaries**

| | **Note** | **Company 2019** $'000 | **Company 2018** $'000 |
|---|---|---|---|
| ***Investments in subsidiaries*** | | | |
| Unquoted equity, less impairment | (a) | 64,430 | 64,430 |
| Amounts due from subsidiaries, less impairment | (b) | 115,012 | 102,883 |
| | | 179,442 | 167,313 |

(a) ***Investments in subsidiaries***

| | 2019 | 2018 |
|---|---|---|
| Unquoted equity, at cost | 64,529 | 64,529 |
| Allowance for impairment | (99) | (99) |
| | 64,430 | 64,430 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 12. Investment in subsidiaries (cont'd)

The movement in the allowance for impairment in respect of the year was as follows:

| | Company | |
|---|---|---|
| | **2019** | **2018** |
| Movement in allowance for impairment: | | |
| At the beginning and end of reporting period | (99) | (99) |

| | Company | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| (b) ***Amounts due from subsidiaries*** | | |
| Due from subsidiaries (non-trade) | 120,645 | 108,516 |
| Allowance for impairment | (5,633) | (5,633) |
| | 115,012 | 102,883 |

The movement in the allowance for impairment in respect of the year was as follows:

| | Company | |
|---|---|---|
| | **2019** | **2018** |
| Movement in allowance for impairment: | | |
| At the beginning and end of reporting period | 5,633 | 5,633 |

The amounts due from subsidiaries are interest-free, unsecured and are to be settled in cash. The amounts due from subsidiaries are denominated in Singapore Dollar.

## 12. Investment in subsidiaries (cont'd)

### (c) *Details of subsidiaries*

| Name of company (Country of incorporation) | Principal activities | Company Cost of investment 2019 $'000 | Company Cost of investment 2018 $'000 | Proportion of ownership interest 2019 % | Proportion of ownership interest 2018 % |
|---|---|---|---|---|---|
| **Held by the Company** | | | | | |
| Yongnam Engineering & Construction (Private) Limited [1] (Singapore) | Engineering contractors | 62,945 | 62,945 | 100 | 100 |
| Yongnam Development Pte Ltd [5] (Singapore) | Dormant | * | * | 100 | 100 |
| Yongnam Investment Pte Ltd [5] (Singapore) | Dormant | * | * | 100 | 100 |
| Yongnam Engineering Sdn. Bhd. [4] (Malaysia) | Engineering contractors | 1,046 | 1,046 | 100 | 100 |
| Yongnam Engineering & Construction (Thailand) Ltd [2] # (Thailand) | Engineering contractors | 99 | 99 | 48.4 | 48.4 |
| Yongnam Steel Work System Engineering (Shanghai) Co., Ltd [5] (People's Republic of China) | Dormant | 37 | 37 | 100 | 100 |
| Yongnam Steel Work Engineering (JinJiang) Co., Ltd[5] (People's Republic of China) | Dormant | * | * | 100 | 100 |
| Yongnam Myanmar Co. Ltd (Myanmar) [6] | Engineering contractors | 69 | 69 | 100 | 100 |
| Yongnam Engineering & Construction Sdn. Bhd. [4] (Malaysia) | Investment holding | 333 | 333 | 100 | 100 |
| | | 64,529 | 64,529 | | |

* Denotes amount less than $1,000

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 12. Investment in subsidiaries (cont'd)

(c) ***Details of subsidiaries (cont'd)***

| Name of company (Country of incorporation) | Principal activities | Proportion of ownership interest 2019 % | 2018 % |
|---|---|---|---|
| **Held by Yongnam Engineering & Construction (Private) Limited** | | | |
| YNE Project Engineering Pte. Ltd. [1] (Singapore) | Engineering contractors | 100 | 100 |
| Yongnam Engineering (HK) Limited [3] (Hong Kong) | Engineering contractors | 100 | 100 |
| Yongnam Jian Huang Joint Venture (Singapore) [7] | Engineering contractors | 51 | 51 |
| Global Maritime and Port Services Pte Ltd /Yongnam Engineering & Construction (Pte) Ltd (Singapore) [7] | Port Operator | 60 | 60 |
| Yongnam Engineering India Private Limited [8] | Engineering Contractors | 100 | – |
| **Held by YNE Project Engineering Pte. Ltd.** | | | |
| Jiwa Harmoni Offshore Sdn. Bhd. [4] (Malaysia) | Engineering contractors | 100 | 100 |

[1] Audited by Ernst & Young LLP, Singapore.
[2] Audited by SPA Audit Co, Ltd, Thailand.
[3] Audited by F. S. Li & Co, Hong Kong.
[4] Audited by ASQ PLT, Chartered Accountants (Malaysia).
[5] Not required to be audited in the country of incorporation.
[6] Audited by Ngwe Inzaly, Myanmar.
[7] Not required to be audited as it is unincorporated joint venture.
[8] Audited by SKP Business Consulting LLP, India

# The Group holds 48.4% (2018: 48.4%) equity in Yongnam Engineering & Construction (Thailand) Ltd ("YNET"). The Group considers YNET as a subsidiary by virtue of the Group having board control and therefore has the ability to direct the relevant activities of YNET. Accordingly, the results and net assets of the subsidiary have been included in the consolidated financial statements.

12. **Investment in subsidiaries (cont'd)**

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

The Group has the following subsidiaries that have NCI that are material to the Group.

| Name of Subsidiary | Principal place of business | Proportion of ownership interest held by non-controlling interest | Loss allocated to NCI during the reporting period<br>$'000 | Accumulated NCI at the end of reporting period<br>$'000 |
|---|---|---|---|---|
| **31 December 2019:** | | | | |
| Yongnam Jian Huang Joint Venture | Singapore | 49% | (334) | (8,411) |
| Global Maritime and Port Services Pte Ltd /Yongnam Engineering & Construction (Pte) Ltd | Singapore | 40% | (614) | (686) |
| **31 December 2018:** | | | | |
| Yongnam Jian Huang Joint Venture | Singapore | 49% | (3,118) | (8,077) |

(e) ***Summarised financial information about subsidiaries with material NCI***

Summarised financial information includes consolidation adjustments but before intercompany eliminations of the subsidiary with material non-controlling interests are as follows:

(i) **Summarised balance sheets**

| | **2019**<br>$'000 | **2018**<br>$'000 |
|---|---|---|
| Non-current asset | 17 | – |
| Current assets | 3,708 | 1,739 |
| Current liabilities | (22,603) | (18,221) |
| Net current liabilities | (18,895) | (16,482) |
| Net liabilities | (18,878) | (16,482) |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 12. Investment in subsidiaries (cont'd)

(e) ***Summarised financial information about subsidiaries with material NCI***

(ii) **Summarised statement of comprehensive income**

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Revenue | 7,518 | (3,975) |
| Loss after income tax | (2,216) | (6,363) |

(iii) **Other summarised information**

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Net cash flows used in operating activities | (2,350) | (8,291) |
| Net cash flows generated from financing activities | 1,931 | 7,385 |

## 13. Investment in associate

Details of the Group's associate are as follows:

| Name of company (Country of incorporation) | Principal activities | Proportion of ownership interest 2019 % | 2018 % |
|---|---|---|---|
| Leighton Yongnam Joint Venture (Singapore) ** | Engineering contractors | 30 | 30 |

** Audited by Ernst & Young LLP, Singapore.

Aggregate information about the Group's investments in associate that is not individually material are as follows:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Carrying amount of interest in immaterial associate | | |
| Profit after tax | 1,330 | 201 |
| Total comprehensive income | 1,330 | 201 |

## 14. Leases

### As a lessee

The Group has lease contracts for various items of plant, machinery and leasehold properties used in its operations. Leases of plant and machinery generally have lease terms between 8 to 54 months, while leasehold properties generally have lease terms between 12 to 100 months. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

Set out below are the carrying amounts of right-of-use assets and the movements during the period:

| | **Group** |
|---|---|
| | **2019** |
| | $'000 |
| As at 1 January | 53,692 |
| Additions | 2,210 |
| Depreciation expense | (7,850) |
| Translation adjustment | 6 |
| As at 31 December | 48,058 |

The following are the amounts recognised in profit or loss:

| | **Group** |
|---|---|
| | **2019** |
| | $'000 |
| Depreciation expense of right-of-use assets | 7,850 |
| Interest expense on lease liabilities | 2,917 |
| Rental expense – short term leases | 1,309 |
| Gain on sale and leaseback | (1,225) |
| Total amount recognised in profit or loss | 10,851 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 14. Leases (cont'd)

**As a lessee (cont'd)**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

| | Group 2019 $'000 |
|---|---|
| As at 1 January | 53,692 |
| Additions | 4,026 |
| Accretion of interest | 2,917 |
| Payments of principal and interest | (9,079) |
| Translation adjustment | 6 |
| As at 31 December | 51,562 |
| Current | 7,087 |
| Non-current | 44,475 |

The Group had total cash outflows for leases of $10,388,000 in 2019.

## 15. Inventories

| | Group | |
|---|---|---|
| | **2019** $'000 | **2018** $'000 |
| **Balance sheet (lower of cost or net realisable value):** | | |
| Consumable materials | 1,885 | 1,755 |
| Steel materials | 25,235 | 43,610 |
| | 27,120 | 45,365 |
| **Income statement:** | | |
| Steel materials recognised as an expense in cost of sales | 51,911 | 32,969 |

**16. Contract assets and liabilities**

Information about receivables, contract assets and contract liabilities from contracts with customers is disclosed as follows:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Receivables from contracts with customers (Note 17) | 21,897 | 29,851 |
| Contract assets | 70,576 | 63,642 |
| Contract liabilities | (20,225) | (15,129) |

Contract assets primarily relate to the Group's right to consideration for work completed but not yet billed at reporting date for its construction contracts. Contract assets are transferred to receivables when the rights become unconditional. As such, the balances of this account vary and depend on the number of ongoing project activities at the end of the year.

Contract liabilities primarily relate to the Group's obligation to transfer goods or services to customers for which the Group has received advances received from customers for construction contracts. Contract liabilities are recognised as revenue as the Group performs under the construction contracts. The increase in contract liabilities in 2019 was mainly due to advances received from customers during the year.

Set out below is the amount of revenue recognised from:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Amounts included in contract liabilities at the beginning of the year | 15,129 | 5,008 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 17. Trade receivables

| | Group | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Trade receivables | 24,053 | 29,851 |
| Less: Allowance for expected credit loss (Note 30(d)) / impairment | (2,156) | – |
| | 21,897 | 29,851 |

Movement in allowance accounts:

| | Group | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| At 1 January | – | – |
| Charge for the year | 2,156 | – |
| At 31 December | 2,156 | – |

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

Trade receivables denominated in foreign currencies as at reporting period are as follows:

| | Group | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| United States Dollar | 1,413 | 255 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 18. Other receivables and deposits

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | $'000 | $'000 | $'000 | $'000 |
| Other debtors | 3,498 | 1,036 | 9 | 9 |
| Deposits | 3,157 | 3,469 | – | – |
| | 6,655 | 4,505 | 9 | 9 |

Other debtors are unsecured, non-interest bearing and are repayable on demand.

## 19. Cash and cash equivalents

Bank balances earn interest at floating rates based on daily bank deposit rate.

Cash and cash equivalents denominated in foreign currencies are as follows:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| United States Dollar | 1,241 | 1,208 |
| Australian Dollar | 18 | 15 |
| Indian Rupee | 2 | 5 |

## 20. Trade payables

Trade payables are non-interest bearing and are generally on credit terms of 30 to 90 days.

Trade payables denominated in foreign currencies as at reporting period are as follows:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| United States Dollar | 1,398 | 11,548 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 21. Other payables and accruals

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | $'000 | $'000 | $'000 | $'000 |
| Other payable | 4,986 | 5,215 | 162 | 425 |
| Accrued operating expenses | 8,008 | 5,154 | 394 | 435 |
| | 12,994 | 10,369 | 556 | 860 |

Other payables are non-interest bearing and are repayable on demand.

## 22. Borrowings

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Trade facility | 12,786 | 9,955 |
| Revolving term loans | 10,778 | 14,612 |
| Transferable term loan | 75,000 | 95,000 |
| Term loans | 12,704 | 15,043 |
| | 111,268 | 134,610 |
| *Comprise:* | | |
| Within one year | 101,369 | 47,099 |
| After one year but not more than five years | 9,535 | 85,974 |
| More than five years | 364 | 1,537 |
| | 111,268 | 134,610 |

As at 31 December 2019, total secured and unsecured borrowings amounted to $110,490,000 and $778,000 (2018: $131,998,000 and $2,612,000) respectively. The Group's borrowings bear effective interest rates ranging from 3.13% to 5.29% (2018: 3.12% to 5.60%) per annum.

**22. Borrowings (cont'd)**

(a) ***Borrowings denominated in foreign currencies as at reporting period are as follows:***

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| United States Dollar | 7,523 | 8,005 |

(b) ***Terms of borrowings***

(i) *Trade facility*

The trade facility relates to trust receipts in relation to some construction contracts. They are interest bearing at predetermined rate above cost of funds. Trust receipts are secured by a guarantee from the Company. Pursuant to a Security Sharing Deed, certain trust receipts are secured by a legal mortgage over the Group's leasehold property at 51 Tuas South Street 5, Singapore and an asset charge over the Group's steel beams and columns.

(ii) *Revolving term loans*

The revolving term loans are for general working capital. They are interest bearing at a predetermined rate above the cost of funds. Revolving term loans are secured by a guarantee from the Company. Pursuant to a Security Sharing Deed, certain revolving term loans are secured by a legal mortgage over the Group's leasehold property at 51 Tuas South Street 5, Singapore and an asset charge over the Group's steel beams and columns.

(iii) *Transferable term loan*

The Group secured a Transferable Term Loan ("TTL") facility of $100 million. The TTL is repayable in agreed 10 instalments on a quarterly basis with the final instalment being 31 December 2020. The TTL is interest bearing based on a fixed margin above Swap Offer Rate for each interest period. The TTL is secured by a legal mortgage over the Group's leasehold property at 51 Tuas South Street 5, Singapore and an asset charge over the Group's steel beams and columns.

(iv) *Term loans*

The term loans are repayable over 45 to 96 monthly instalments with the final maturity date being 31 January 2022 and 30 April 2025 for each respective term loan. They are interest bearing at a predetermined rate above the banks' cost of fund. Term loans are secured by a guarantee from the Company and legal mortgage over the Group's freehold land at Lot 1972, 1973, 1974, 1975, 1976 and 1977 in Mukim Jeram Batu, District of Pontian, Johor, Malaysia.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 22. Borrowings (cont'd)

(c) ***Reconciliation of borrowings***

A reconciliation of changes in borrowings arising from financing activities is as follows:

| | 1 January 2019 | Cash flows | | Non-cash changes | | 2019 |
|---|---|---|---|---|---|---|
| | | Proceeds | Repayments | Foreign exchange movement | Others | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Borrowings | | | | | | |
| - Current | 47,099 | 2,921 | (26,137) | (126) | 77,612 | 101,369 |
| - Non-current | 87,511 | – | – | – | (77,612) | 9,899 |
| Total | 134,610 | 2,921 | (26,137) | (126) | – | 111,268 |

| | 1 January 2018 | Cash flows | | Non-cash changes | | 2018 |
|---|---|---|---|---|---|---|
| | | Proceeds | Repayments | Foreign exchange movement | Others | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Borrowings | | | | | | |
| - Current | 75,802 | 25,113 | (56,776) | 99 | 2,861 | 47,099 |
| - Non-current | 15,340 | 75,000 | – | 32 | (2,861) | 87,511 |
| Total | 91,142 | 100,113 | (56,776) | 131 | – | 134,610 |

The "Others" column relates to reclassification of non-current portion of borrowings due to the passage of time.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 23. Convertible bonds

On 4 June 2019, the Company issued convertible bonds at a nominal value of S$12,500,000 due on 4 June 2021. The bonds may be redeemed by the Company at their nominal value. The bonds can be converted into shares of the Company (the "conversion option") at the holder's option at a conversion price of S$0.179 per share at any time on and after 4 September 2019 up to close of business on 3 June 2021 if not called for redemption. On full conversion, up to 69,832,402 conversion shares are issued and allotted to the holders of the bonds, if the full carrying amount of the bonds is converted into shares instead of being redeemed.

The convertible bonds recognised in the balance sheet are as follows:

| | **Group and Company 2019** $'000 |
|---|---|
| Face value of convertible bonds issued net of transaction costs | 12,082 |
| Embedded equity conversion option | (2,611) |
| Liability component at initial recognition | 9,471 |
| Accumulated amortisation of interest expense | 1,301 |
| Accumulated payments of interest | (438) |
| Liability component at end of financial year | 10,334 |

***Reconciliation of convertible bonds***

| | | **Cash flows** | | **Non-cash changes** | | | |
|---|---|---|---|---|---|---|---|
| | **1 January 2019** $'000 | **Proceeds** $'000 | **Repayments** $'000 | **Accretion of interest** $'000 | **Fair value gains** $'000 | **Others** $'000 | **31 December 2019** $'000 |
| Convertible bonds | | | | | | | |
| - Liability | – | 9,798 | (317) | 863 | – | – | 10,334 |
| - Derivative | – | 2,702 | (91) | – | (1,403) | 91 | 1,299 |
| | – | 12,500 | (418) | 863 | (1,403) | 91 | 11,633 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 23. Convertible bonds (cont'd)

The estimate of the fair value of the conversion and early redemption option derivatives is measured based on the black-scholes model. Details of the assumptions of conversion and early redemption option derivatives are as follows:

| | Group | |
|---|---|---|
| **Date of valuation** | **31 December 2019** | **4 June 2019** (date of issuance) |
| Share price (S$) | 0.150 | 0.168 |
| Exercise price (S$) | 0.167 | 0.163 |
| Expected volatility | 31% | 39% |
| Maturity period | 1.4 years | 2 years |
| Conversion period | 1.4 years | 1.75 years |

## 24. Share capital

| | Group and Company | | | |
|---|---|---|---|---|
| | **2019** | | **2018** | |
| | No. of shares '000 | $'000 | No. of shares '000 | $'000 |
| **Issued and fully paid:** | | | | |
| At 1 January and 31 December | 522,603 | 141,445 | 522,603 | 141,445 |

The holders of ordinary 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.

The Company has granted share options to subscribe for the Company's ordinary shares which were lapsed during the year (Note 26).

## 25. Capital reserves

| | Group | |
|---|---|---|
| | **2019** $'000 | **2018** $'000 |
| Capital reserves on consolidation arising from acquisition of subsidiaries | 6,837 | 6,837 |

The capital reserves are non-distributable.

## 26. Share option reserve

The Employee Share Option Scheme is administered by the Remuneration Committee. Share option reserve represents the equity-settled share options granted to employees and directors. The reserve is made up of the cumulative value of services received from employees and directors recorded on grant of equity-settled share options.

***Employee Share Option Scheme ("ESOS")***

The ESOS was approved by the shareholders during the Extraordinary General Meeting held on 16 June 2004. Executive and non-executive directors, and employees of the Group or associated companies are eligible to participate in the ESOS.

The ESOS share options granted are exercisable for ten years after date of grant, and are exercisable at an exercise price set at:

- a discount to a price ("Market Price") equal to the average of the last dealt prices for the Shares on the official list of the SGX-ST for the five consecutive market days immediately preceding the relevant date of grant of the ESOS share option, subject to a maximum of 20% discount ("Incentive Option"); or

- a fixed Market Price ("Market Price Option")

The Committee has the discretion to grant options set at a discount to Market Price, and determine the participants to whom, and the options to which, such reduction in exercise prices will apply.

Incentive Options granted are exercisable after the second anniversary from the date of grant of the option, and Market Price Options granted may be exercised after the first anniversary of the date of grant of that option.

The ESOS shall continue in operation for a maximum duration of ten years and may be continued for any further periods thereafter with the approval of shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.

## 26. Share option reserve (cont'd)

***Movement of share options under ESOS during the year***

The following table illustrates the number ("No.") and weighted average exercise prices ("WAEP") of, and movements in, share options under ESOS during the year.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **No.** '000 | **WAEP** ($) | **No.** '000 | **WAEP** ($) |
| Outstanding at beginning of year | 3,954 | 0.303 | 7,520 | 0.429 |
| Lapsed during the year | (3,954) | 0.303 | (3,566) | 0.568 |
| Outstanding at end of year | – | – | 3,954 | 0.303 |
| Exercisable at end of year | – | – | 3,954 | 0.303 |

## 27. 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.

## 28. Commitments

(a) ***Capital commitments***

Capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

| | Group | |
|---|---|---|
| | **2019** $'000 | **2018** $'000 |
| Capital commitments in respect of property, plant and equipment | 3,530 | 1,519 |

## 28. Commitments (cont'd)

(b) ***Operating lease commitments***

Future minimum lease commitments under these non-cancellable leases as at the end of reporting period are as follows:

| | Group 2018 $'000 |
|---|---|
| Within one year | 9,051 |
| After one year but not more than five years | 26,110 |
| After five years | 35,758 |
| | 70,919 |

(c) ***Hire purchase creditors***

The Group leases certain property, plant and equipment under hire purchase arrangements. The liabilities are secured on the property, plant and equipment and expire over the next one to six years. The weighted average effective interest rates implicit in the leases of the Group at the end of the reporting period is 3.32% (2018: 3.60%) per annum.

Future minimum payments together with the present value of the net minimum payments are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Group** | **Minimum payments** $'000 | **Present value of payments** $'000 | **Minimum Payments** $'000 | **Present value of payments** $'000 |
| Within one year | 2,059 | 1,928 | 2,478 | 2,292 |
| After one year but not more than five years | 2,812 | 2,525 | 3,306 | 3,013 |
| More than five years | 77 | 66 | 181 | 154 |
| | 2,889 | 2,591 | 3,487 | 3,167 |
| Total minimum lease payments | 4,948 | 4,519 | 5,965 | 5,459 |
| Less: Amounts representing finance charges | (429) | – | (506) | – |
| Present value of minimum lease payments | 4,519 | 4,519 | 5,459 | 5,459 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 28. Commitments (cont'd)

(c) ***Hire purchase creditors (cont'd)***

***Reconciliation of hire purchase creditors***

A reconciliation of changes in hire purchase creditors arising from financing activities is as follows:

| | 1 January 2019 | Cash flows | Non-cash changes | | | 31 December 2019 |
|---|---|---|---|---|---|---|
| | | Repayments | Additions to property, plant and equipment | Foreign exchange movement | Others | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Hire purchase | | | | | | |
| - Current | 2,292 | (2,688) | 559 | – | 1,765 | 1,928 |
| - Non-current | 3,167 | – | 1,189 | – | (1,765) | 2,591 |
| Total | 5,459 | (2,688) | 1,748 | – | – | 4,519 |

| | 1 January 2018 | Cash flows | Non-cash changes | | | 31 December 2018 |
|---|---|---|---|---|---|---|
| | | Repayments | Additions to property, plant and equipment | Foreign exchange movement | Others | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Hire purchase | | | | | | |
| - Current | 1,957 | (2,547) | 898 | 1 | 1,983 | 2,292 |
| - Non-current | 3,293 | – | 1,857 | – | (1,983) | 3,167 |
| Total | 5,250 | (2,547) | 2,755 | 1 | – | 5,459 |

The "Others" column relates to reclassification of non-current portion of hire purchase creditors due to the passage of time.

## 29. Related party transactions

During the year, in addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions with related parties based on terms agreed between the parties were as follows:

(a) ***Purchase of services and management fees***

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | $'000 | $'000 | $'000 | $'000 |
| Technical advisory service provided by directors of the Company | 46 | 46 | – | – |
| Management fee income from subsidiaries | – | – | 1,420 | 587 |
| Salaries, bonuses and other costs | 3,577 | 4,022 | – | – |
| Contributions to Central Provident Fund | 81 | 64 | – | – |
| Directors' fees | 190 | 222 | 190 | 222 |
| | 3,848 | 4,308 | 190 | 222 |
| *Comprise:* | | | | |
| Directors of the Company | 1,699 | 1,918 | 190 | 222 |
| Other key management personnel | 2,149 | 2,390 | – | – |
| | 3,848 | 4,308 | 190 | 222 |

## 30. Financial risk management objectives and policies

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include foreign currency risk, liquidity risk, interest rate risk and credit risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Finance Director. It is, and has been throughout the current and previous financial years, the Group's policy that no derivatives shall be undertaken except for the use of hedging instruments where appropriate and cost-efficient. The Group does not apply hedge accounting.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 30. Financial risk management objectives and policies (cont'd)

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

There is no foreign currency risk arising from the Group's revenue as they are denominated in the respective functional currencies of the Group entities. The Group has transactional currency exposures arising from purchases that are denominated in a currency other than the respective functional currencies of Group entities, mainly relating to purchases of steel materials denominated in United States Dollar.

The Group seeks to manage its foreign currency exposure by constructing natural hedges when it matches receivables and payables in any single currency.

*Sensitivity analysis for foreign currency risk*

The following table demonstrates the sensitivity of the Group's loss net of tax to a reasonably possible change in United States Dollar against the respective functional currencies of the Group entities, with all other variables held constant.

| (Increase)/decrease loss net of tax | | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| USD/SGD | – strengthened by 5% (2018: 5%) | (313) | (905) |
| | – weakened by 5% (2018: 5%) | 313 | 905 |

### (b) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. There is no significant exposure to liquidity risk. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's liquidity risk management policy is to match the maturities of financial assets and liabilities and to maintain sufficient liquid financial assets and stand-by credit facilities.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 30. Financial risk management objectives and policies (cont'd)

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

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

| Group | Less than one year $'000 | Two to five years $'000 | More than five years $'000 | Total $'000 |
|---|---|---|---|---|
| **2019** | | | | |
| Trade payables | 58,509 | – | – | 58,509 |
| Other payables and accruals | 12,994 | – | – | 12,994 |
| Lease Liabilities | 9,895 | 26,281 | 29,805 | 65,981 |
| Borrowings | 105,030 | 11,059 | 389 | 116,478 |
| Hire purchase creditors | 2,059 | 2,812 | 77 | 4,948 |
| | 188,487 | 40,152 | 30,271 | 258,910 |

| Group | Less than one year $'000 | Two to five years $'000 | More than five years $'000 | Total $'000 |
|---|---|---|---|---|
| **2018** | | | | |
| Trade payables | 65,985 | – | – | 65,985 |
| Other payables and accruals | 10,369 | – | – | 10,369 |
| Borrowings | 52,214 | 91,347 | 1,650 | 145,211 |
| Hire purchase creditors | 2,478 | 3,306 | 181 | 5,965 |
| | 131,046 | 94,653 | 1,831 | 227,530 |

| Company | Less than one year $'000 | Two to five years $'000 | More than five years $'000 | Total $'000 |
|---|---|---|---|---|
| **2019** | | | | |
| Other payables and accruals | 556 | – | – | 556 |
| **2018** | | | | |
| Other payables and accruals | 860 | – | – | 860 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 30. Financial risk management objectives and policies (cont'd)

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

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

| Company | Less than one year $'000 | Two to five years $'000 | Total $'000 |
|---|---|---|---|
| **2019** | | | |
| Financial guarantees | 104,239 | 14,743 | 118,982 |
| **2018** | | | |
| Financial guarantees | 80,991 | 100,106 | 181,097 |

### (c) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from its borrowings with floating interest rates.

The Group's policy is to obtain the most favourable interest rate available. The Group monitors the interest rate on borrowings closely to ensure that the borrowings are maintained at favourable rates.

Information regarding the interest rates of the Group's borrowings is in Note 22 and Note 28(c).

*Sensitivity analysis for interest rate risk*

At 31 December 2019, if interest rates had been 75 (2018: 75) basis points lower/higher with all other variables held constant, the Group's loss for the year would have been $835,000 lower/higher (2018: $1,010,000 lower/higher), arising mainly as a result of lower/higher interest expense on borrowings.

**30. Financial risk management objectives and policies (cont'd)**

(d) ***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 receivables and contract assets. For other financial assets (including investment securities, cash, other receivables and short-term deposits), 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. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Head of Credit Control.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 90 days when they fall due, which are derived based on the Group's historical information.

The Group considers "low risk" to be an investment grade credit rating with at least one major rating agency for those investments with credit rating. To assess whether there is a significant increase in credit risk, the company compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition. The Group considers available reasonable and supportive forwarding-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- Actual or expected significant changes in the operating results of the borrower
- Significant increases in credit risk on other financial instruments of the same borrower

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

**30. Financial risk management objectives and policies (cont'd)**

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

- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 90 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the issuer or the borrower
- A breach of contract, such as a default or past due event
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- There is a disappearance of an active market for that financial asset because of financial difficulty

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 120 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the Company continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

*Trade receivables and contract assets*

The Group provides for lifetime expected credit losses for all trade receivables and contract assets using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to days past due.

In measuring the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and days past due. The contract assets relate to unbilled work in progress, which have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

**30. Financial risk management objectives and policies (cont'd)**

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

*Trade receivables and contract assets (cont'd)*

Summarised below is the information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix:

| 31 December 2019 | | Trade receivables | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Days past due | | | | |
| | Contract assets $'000 | Current $'000 | Less than 30 days past due $'000 | More than 30 days past due $'000 | More than 60 days past due $'000 | More than 90 days past due $'000 | Total $'000 |
| Gross carrying amount | 70,576 | 17,618 | 2,569 | 215 | 438 | 3,213 | 94,629 |
| Loss allowance provision | – | – | – | – | – | (2,156) | (2,156) |
| | 70,576 | 17,618 | 2,569 | 215 | 438 | 1,057 | 92,473 |

| 31 December 2018 | | Trade receivables | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Days past due | | | | |
| | Contract assets $'000 | Current $'000 | Less than 30 days past due $'000 | More than 30 days past due $'000 | More than 60 days past due $'000 | More than 90 days past due $'000 | Total $'000 |
| Gross carrying amount | 63,642 | 21,012 | 5,632 | 860 | 169 | 2,178 | 93,493 |
| Loss allowance provision | – | – | – | – | – | – | – |
| | 63,642 | 21,012 | 5,632 | 860 | 169 | 2,178 | 93,493 |

*Other receivables and deposits*

The Group has assessed and concluded that there has been no significant increase in the credit risk of other receivables and deposits since the initial recognition of these financial assets. Accordingly, the group measured the impairment loss allowance using the 12-months ECL and determined that ECL is insignificant.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 30. Financial risk management objectives and policies (cont'd)

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

*Exposure to credit risk*

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

- A nominal amount of $118,982,000 (2018: $181,097,000) relating to corporate guarantees provided by the Company to financial institutions for banking facilities entered into by certain subsidiaries.

*Credit risk concentration*

Concentration of credit risk exists when changes in economic, industry or geographical factors similarly affect groups of counterparts whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group is principally involved in the construction industry and consequently, the risk of non-payment of its trade receivables is affected by any unfavourable economic changes to the construction industry.

The credit risk concentration profile of the Group's trade receivables and contract assets (before impairment allowance) by country at the end of the reporting period are as follows:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Singapore | 80,054 | 84,456 |
| Hong Kong | 4,606 | 8,271 |
| Australia | 2,598 | 153 |
| Myanmar | 247 | 499 |
| India | 4,956 | 102 |
| Others | 12 | 12 |
| | 92,473 | 93,493 |

At the end of the reporting period, approximately:

- 75% (2018: 68%) of the Group's trade receivables from Singapore is due from 4 customers (2018: 6) in respect of 3 (2018: 7) construction contracts and one fixed asset sale contract.

**30. Financial risk management objectives and policies (cont'd)**

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

*Financial assets that are neither past due nor impaired*

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. Cash and cash equivalents and deposits are placed with reputable financial institutions or companies with no history of default.

**31. Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and 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 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by net tangible assets value. The Group's net debt includes borrowings and hire purchase creditors, less cash and cash equivalents. Net tangible assets value is the value of total assets less total liabilities of the Group. The Group's policy is to keep the gearing ratio not more than 130% after taking into account the recognition of lease liabilities as results of SFRS (I) 16 Leases standard.

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Borrowings | 111,268 | 134,610 |
| Lease liabilities | 51,562 | – |
| Convertible bond (liabilities) | 10,334 | – |
| Convertible bond (derivative) | 1,299 | – |
| Hire purchase creditors | 4,519 | 5,459 |
| | 178,982 | 140,069 |
| Cash and cash equivalents | (9,117) | (14,264) |
| Net debt | 169,865 | 125,805 |
| Net tangible assets value | 190,753 | 245,664 |
| **Gearing ratio** | 89% | 51% |

## 32. Fair values of financial instruments

(a) ***Fair value hierarchy***

The Group and the Company categorises fair value measurement using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active markets 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.

(b) ***Fair value of financial instruments by classes that are carried at fair value***

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

| | **Fair value measurements at the end of the reporting period using** | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets for identical instruments** (Level 1) $'000 | **Significant observable inputs other than quoted prices** (Level 2) $'000 | **Significant un-observable inputs** (Level 3) $'000 | **Total** $'000 |
| **2019** | | | | |
| **Group and Company** | | | | |
| ***Financial liabilities:*** | | | | |
| Convertible bond (derivative) | – | 1,299 | – | 1,299 |

There were no transfers between level 2 and level 3 during the year.

**32. Fair values of financial instruments (cont'd)**

(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***

*Cash and cash equivalents, trade receivables, other receivables and deposits, trade payables, other payables and accruals and current portion of hire purchase creditors*

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

*Borrowings*

The carrying amount of borrowings due within one year approximates fair value because of the short period to maturity. The carrying amount of borrowings due after one year is a reasonable approximation of fair value as these are floating rate instruments that are repriced to market interest rates.

*Hire purchase creditors (non-current)*

The carrying amount of non-current hire purchase creditors approximates fair value as their fixed contractual rates approximate year end prevailing market interest rates.

*Convertible bonds*

The carrying amount of convertible bond (liabilities) approximates fair value as its fixed implicit rate approximates year end prevailing market interest rates.

**33. Segment information**

Segment information is presented in respect of the Group's segments. The primary format, by geographical segments, is based on the Group's management and internal reporting structure. Inter-segment pricing, if any, is determined on an arm's length basis.

The Group mainly operates in two geographical areas, namely Singapore and Rest of Asia Pacific. The Singapore geographical segments operate in all four of the Group's business segments, whilst the Rest of Asia Pacific geographical segments operate in the specialist civil engineering, structural steelworks and design and build business segments. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

33. **Segment information (cont'd)**

(a) ***Geographical segments***

| **2019** | **Singapore** $'000 | **Rest of Asia Pacific** $'000 | **Elimination** $'000 | **Group** $'000 |
|---|---|---|---|---|
| Revenue from external customers | 138,456 | 57,817 | – | 196,273 |
| Inter-segment revenue | 1,143 | 21,335 | (22,478) | – |
| Total revenue | 139,599 | 79,152 | (22,478) | 196,273 |
| Depreciation | 24,839 | 8,179 | – | 33,018 |
| Segment profit/(loss) | (43,987) | (1,107) | (1,986) | (47,080) |
| Share of results of an associated company | | | | 399 |
| Finance income | | | | 15 |
| Finance costs | | | | (12,898) |
| Loss before taxation | | | | (59,564) |
| Taxation | | | | 4,861 |
| Net loss | | | | (54,703) |
| Non-current assets | 201,511 | 115,683 | – | 317,194 |

**33. Segment information (cont'd)**

(a) ***Geographical segments (cont'd)***

| **2018** | **Singapore** $'000 | **Rest of Asia Pacific** $'000 | **Elimination** $'000 | **Group** $'000 |
|---|---|---|---|---|
| Revenue from external customers | 123,488 | 37,961 | – | 161,449 |
| Inter-segment revenue | (2,213) | 19,430 | (17,217) | – |
| Total revenue | 121,275 | 57,391 | (17,217) | 161,449 |
| Depreciation | 25,286 | 4,639 | (20) | 29,905 |
| Segment profit/(loss) | (58,765) | 1,233 | (552) | (58,084) |
| Share of results of an associated company | | | | 60 |
| Finance income | | | | 4 |
| Finance costs | | | | (8,033) |
| Loss before taxation | | | | (66,053) |
| Taxation | | | | 11,844 |
| Net loss | | | | (54,209) |
| Non-current assets | 245,272 | 69,584 | 8 | 314,864 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 33. Segment information (cont'd)

(a) ***Geographical segments (cont'd)***

***Reconciliation of non-current assets***

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | $'000 | $'000 |
| Total segment assets | 317,194 | 314,864 |
| Unallocated: | | |
| Deferred tax assets | 5,056 | – |
| Total assets | 322,250 | 314,864 |

(b) ***Business segments***

It is not meaningful to show the total assets employed and the capital expenditure by business activities as these assets are generally shared across the segments and not separately identifiable by business segments. Disaggregation of revenue by major product or service line is presented in Note 4(a).

(c) ***Information about major customers***

Revenue from six major customers amounted to $113,543,000 (2018: four major customers: $58,208,000), arising from structural steelworks, specialist civil engineering and design and build business segments.

## 34. Categories of financial assets and liabilities

(a) ***Financial assets carried at amortised cost***

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** |
| | **Note** | $'000 | $'000 | $'000 | $'000 |
| Trade receivables | 17 | 21,897 | 29,851 | – | – |
| Other receivables and deposits | | 6,655 | 4,505 | 9 | 9 |
| Cash and cash equivalents | | 9,117 | 14,264 | 21 | 41 |
| **Total financial assets carried at amortised cost** | | 37,669 | 48,620 | 30 | 50 |

(b) ***Financial liabilities carried at amortised cost***

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** |
| | **Note** | $'000 | $'000 | $'000 | $'000 |
| Trade payables | 20 | 58,509 | 65,985 | – | – |
| Other payables and accruals* | | 10,585 | 9,781 | 556 | 860 |
| Borrowings | 22 | 111,268 | 134,610 | – | – |
| Hire purchase creditors | 28(c) | 4,519 | 5,459 | – | – |
| Lease liabilities | 14 | 51,561 | – | – | – |
| Convertible bond (liabilities) | 23 | 10,334 | – | 10,334 | – |
| **Total financial liabilities carried at amortised cost** | | 246,776 | 215,835 | 10,890 | 860 |

*Excludes GST/VAT payables.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

## 35. Subsequent events

***Coronavirus Disease 2019 ("COVID-2019") Outbreak***

With the recent and rapid development of the coronavirus outbreak, many countries have required entities to limit or suspend business operations and implemented travel restrictions and quarantine measures subsequent to the year ended 31 December 2019. These measures and policies have significantly disrupted the activities of many entities to a certain extent. This may affect the financial performance, ongoing contracts, and carrying value of property, plant and equipment, inventories and financial assets of the Group after the reporting period. As the outbreak continues to progress and evolve, the estimate of the financial impact cannot be reasonably determined at this juncture.

## 36. Authorisation of financial statements

The financial statements for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 06 April 2020.

# STATISTICS OF SHAREHOLDING

AS AT 26 MARCH 2020

## SHARE CAPITAL AS AT 26 MARCH 2020

| | | |
|---|---|---|
| Issued and fully paid-up capital | : | $141,445,276 |
| Total number of issued shares | : | 522,602,931 |
| Treasury shares | : | Nil |
| Subsidiary holdings | : | Nil |
| Class of shares | : | Ordinary shares |
| Voting right | : | One vote per share |

## DISTRIBUTION OF SHAREHOLDINGS BY SIZE OF SHAREHOLDINGS AS AT 26 MARCH 2020

| Size of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 – 99 | 296 | 2.69 | 9,160 | 0.00 |
| 100 – 1,000 | 920 | 8.37 | 502,834 | 0.10 |
| 1,001 – 10,000 | 6,252 | 56.86 | 28,650,835 | 5.48 |
| 10,001 – 1,000,000 | 3,497 | 31.81 | 171,891,752 | 32.89 |
| 1,000,001 and above | 30 | 0.27 | 321,548,350 | 61.53 |
| Total | 10,995 | 100.00 | 522,602,931 | 100.00 |

## LIST OF TWENTY LARGEST REGISTERED SHAREHOLDERS AS AT 26 MARCH 2020

| No. | Name | No. of Shares | % |
|---|---|---|---|
| 1 | CGS-CIMB SECURITIES (SINGAPORE) PTE LTD | 94,747,193 | 18.13 |
| 2 | PHILLIP SECURITIES PTE LTD | 48,794,625 | 9.34 |
| 3 | MAYBANK KIM ENG SECURITIES PTE. LTD | 18,477,222 | 3.54 |
| 4 | MOHAMED ABDUL JALEEL S/O MUTHUMARICAR SHAIK MOHAMED | 17,092,835 | 3.27 |
| 5 | NEO CHENG KANG | 15,339,800 | 2.94 |
| 6 | RAFFLES NOMINEES (PTE) LIMITED | 13,874,537 | 2.65 |
| 7 | OCBC SECURITIES PRIVATE LTD | 13,173,581 | 2.52 |
| 8 | CITIBANK NOMINEES SINGAPORE PTE LTD | 12,972,976 | 2.48 |
| 9 | DBS NOMINEES PTE LTD | 12,556,393 | 2.40 |
| 10 | SUSTAINED LAND PTE LTD | 11,800,000 | 2.26 |
| 11 | LEE PUI CHING | 6,745,346 | 1.29 |
| 12 | UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED | 5,347,974 | 1.02 |
| 13 | HSBC (SINGAPORE) NOMINEES PTE LTD | 5,187,700 | 0.99 |
| 14 | UOB KAY HIAN PTE LTD | 5,058,900 | 0.97 |
| 15 | DBS VICKERS SECURITIES (SINGAPORE) PTE LTD | 4,470,477 | 0.86 |
| 16 | DB NOMINEES (SINGAPORE) PTE LTD | 4,382,165 | 0.84 |
| 17 | YONGNAM PRIVATE LIMITED | 4,082,108 | 0.78 |
| 18 | OCBC NOMINEES SINGAPORE PTE LTD | 3,650,151 | 0.70 |
| 19 | ASDEW ACQUISITIONS PTE LTD | 3,505,500 | 0.67 |
| 20 | LIM AND TAN SECURITIES PTE LTD | 3,057,250 | 0.59 |
| | Total: | 304,316,733 | 58.24 |

# STATISTICS OF SHAREHOLDING

AS AT 26 MARCH 2020

| Substantial Shareholders | Direct Interest Shares | % | Deemed Interest Shares | % | Total Interest Shares | % |
|---|---|---|---|---|---|---|
| Seow Soon Yong | 86,105,007 | 16.48 | 4,082,108[1] | 0.78 | 90,187,115 | 17.26 |
| Mohamed Abdul Jaleel S/O Muthumaricar Shaik Mohamed | 54,217,835 | 10.37 | 4,007,376[2] | 0.77 | 58,225,211 | 11.14 |

[1] Mr. Seow Soon Yong is deemed interested in the shares held by Yongnam Private Limited in the share capital of the Company through his 75% of interest held in Yongnam Private Limited.

[1] Mr. Mohamed Abdul Jaleel S/O Muthumaricar Shaik Mohamed holds 100% of the share capital of MES Group Holdings Pte Ltd and he is accordingly deemed interested in the Shares held by MES Group Holdings Pte Ltd.

### SHAREHOLDING HELD IN PUBLIC HANDS

Approximately 68.28% of the shareholding of the Company is held in the hands of the public as at 26 March 2020 and Rule 723 of the Listing Manual is complied with.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting of Yongnam Holdings Limited (the "**Company**") will be held at 51 Tuas South Street 5, Singapore 637644 on Monday, 29 June 2020 at 10.00 a.m. to transact the following businesses:

**ORDINARY BUSINESS**

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2019 and the Directors' Statement together with the Reports of the Auditors thereon. **(Resolution 1)**

2. To approve the payment of proposed Directors' fees of S$190,000 for the financial year ended 31 December 2019 (FY2018: S$222,000). **(Resolution 2)**

3. To note the retirement of Mr Seow Soon Hee as Executive Director pursuant to Article 103 of the Constitution of the Company who will not be seeking for re-election.

4. To re-elect the following Directors who are retiring by rotation pursuant to Article 103 of the Constitution of the Company:–

   (a) Mr Seow Soon Yong; **(Resolution 3)**
   (b) Mr Siau Sun King. **(Resolution 4)**

5. To re-appoint Messrs Ernst & Young LLP as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. **(Resolution 5)**

6. To transact any other ordinary business that may be properly transacted at an Annual General Meeting of the Company.

**SPECIAL BUSINESS**

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without modifications:

7. **Authority to allot and issue shares**

   That pursuant to Section 161 of the Companies Act, Chapter 50 and the listing rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), authority be and is hereby given to the Directors of the Company to:

   (a) (i) issue and allot new shares ("**Shares**") in the capital of the Company (whether by way of rights, bonus or otherwise); and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares, at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

   (b) (notwithstanding that 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 while this resolution was in force,

# NOTICE OF
# ANNUAL GENERAL MEETING

provided that:

(1) the aggregate number of Shares to be issued pursuant to such authority (including Shares to be issued in pursuance of Instruments made or granted pursuant to such authority), does not exceed 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with paragraph (2) below), and provided further that where shareholders of the Company ("**Shareholders**") are not given the opportunity to participate in the same on a pro-rata basis ("**non pro-rata basis**"), then the Shares to be issued under such circumstances (including Shares to be issued in pursuance of Instruments made or granted pursuant to such authority) shall not exceed 20% of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares that may be issued under paragraph (1) above, the total number of issued Shares, excluding treasury shares and subsidiary holdings, shall be based on the total number of issued Shares of the Company, excluding treasury shares and subsidiary holdings, at the time such authority was conferred, after adjusting for:

(a) new Shares arising from the conversion or exercise of any convertible securities or the exercising of share options or the vesting of share awards which are outstanding or subsisting at the time such authority was conferred and;

(b) any subsequent consolidation or subdivision of the Shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the requirements imposed by the SGX-ST from time to time and the provisions of the Listing Manual of the SGX-ST for the time being in force (in each case, unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Companies Act and otherwise, and the Constitution of the Company for the time being; and

(4) (unless revoked or varied by the Company in General Meeting) the authority conferred by this Resolution shall continue to be 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. **(Resolution 6)**

**BY ORDER OF THE BOARD**

**SEOW SOON YONG**
Chief Executive Officer

13 April 2020

# NOTICE OF ANNUAL GENERAL MEETING

**Explanatory Notes:**

(a) In accordance with Article 103 of the Constitution of the Company, Mr Seow Soon Hee retires from office as Director of the Company and will not be seeking for re-election. Accordingly, Mr Seow Soon Hee will relinquish his position as Executive Director of the Company.

(b) Detailed information of Mr Seow Soon Yong and Mr Siau Sun King (the Executive Directors) who are siblings can be found under the "Board of Directors" and "Disclosure of information on Directors seeking re-election" sections.

(c) The proposed Ordinary Resolution 6, if passed, will empower the Directors of the Company from the date of the Meeting to allot and issue Shares in the Company up to an amount not exceeding 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

**Notes:**

(1) A member of the Company (other than a "Relevant Intermediary") entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.

(2) A Relevant Intermediary may appoint more than two proxies provided that each proxy must be appointed to exercise the rights attached to different shares held by him (which number and class of shares shall be specified).

"**Relevant intermediary**" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50 of Singapore.

(3) The instrument appointing a proxy must be duly deposited at the registered office of the Company at 51 Tuas South Street 5, Singapore 637644 not later than forty-eight (48) hours before the time appointed for the holding of the 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 Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) 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 or service providers), 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 or service providers) 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.

This page has been intentionally left blank

**YONGNAM HOLDINGS LIMITED**
Company Registration no. 199407612N
(Incorporated in the Republic of Singapore)

**IMPORTANT**

1. Relevant intermediaries (as defined in Section 181 of the Companies Act, Cap. 50 of Singapore may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For CPF/SRS investors who have used their CPF/SRS monies to buy shares in the capital of Yongnam Holdings Limited, this Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective agent Banks/SRS Operators if they any queries regarding their appointment as proxies.
3. **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 13 April 2020.**

I/We, ______________________________ (name) ______________________ (NRIC/Passport No.)

of ______________________________________________________________ (address)

being a member/members of Yongnam Holdings Limited (the "**Company**"), hereby appoint:

| **Name** | **NRIC/Passport No.** | **Proportion of Shareholding(s)** | |
|---|---|---|---|
| | | **No. of Shares** | **%** |
| **Address** | | | |

and/or

| **Name** | **NRIC/Passport No.** | **Proportion of Shareholding(s)** | |
|---|---|---|---|
| | | **No. of Shares** | **%** |
| **Address** | | | |

as *my/our *proxy/proxies to attend, speak and vote for *me/us on *my/our behalf at the Annual General Meeting ("**AGM**") of the Company to be held at 51 Tuas South Street 5, Singapore 637644 on Monday, 29 June 2020 at 10.00 a.m. and at any adjournment thereof.

*I/We direct *my/our *proxy/proxies to vote for or against or abstain from voting the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, the *proxy/proxies will vote or abstain from voting at *his/their discretion, as *he/they will on any other matter arising at the AGM and at any adjournment thereof. If no person is named in the above boxes, the Chairman of the AGM shall be *my/our proxy to vote, for or against the Resolutions to be proposed at the AGM as indicated hereunder, for *me/us and on *my/our behalf at the AGM and at any adjournment thereof.

| **Resolution No.** | **Ordinary Resolutions** | ****For** | ****Against** | ****Abstain** |
|---|---|---|---|---|
| **ORDINARY BUSINESS** | | | | |
| 1. | Adoption of the Audited Financial Statements of the Company for the financial year ended 31 December 2019 and the Directors' Statement together with the Reports of the Auditors thereon. | | | |
| 2. | Approval of payment of proposed Directors' fees for the financial year ended 31 December 2019. | | | |
| 3. | Re-election of Mr Seow Soon Yong as Director. | | | |
| 4. | Re-election of Mr Siau Sun King as Director. | | | |
| 5. | Re-appointment of Messrs Ernst & Young LLP as Auditors. | | | |
| **SPECIAL BUSINESS** | | | | |
| 6. | Authority to allot and issue shares. | | | |

* *Delete accordingly*

** *Voting will be conducted by poll. If you wish to exercise all your votes "For" or "Against" the relevant resolution, please tick "√" in the relevant box provided. Alternatively, please indicate the number of votes "For" or "Against" each resolution. If you mark "√" in the abstain box for a particular resolution, you are directing your proxy not to vote on that resolution.*

Dated this ________ day of ________________, 2020

| **Total Number of Shares Held** |
|---|
| |

.............................................................
Signature(s) of Member(s)/Common Seal
**IMPORTANT**: Please read notes overleaf

**Notes:–**

1. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the AGM. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy, failing which the appointments will be deemed to have been made in the alternative.

   (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "**Relevant intermediary**" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50 of Singapore.

2. A proxy need not be a member of the Company.

3. The instrument appointing a proxy or proxies must be signed by the appointor or his duly authorised attorney or if the appointor is a corporation, it must be executed either under its common seal or signed by its attorney or officer duly authorised.

4. 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 AGM, in accordance with its Constitution and Section 179 of the Companies Act, Chapter 50 of Singapore.

5. The instrument appointing a proxy or proxies (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) must be deposited at the registered office of the Company at 51 Tuas South Street 5, Singapore 637644 at least forty-eight (48) hours before the time appointed for the AGM.

6. Completion and return of an instrument appointing a proxy or proxies shall not preclude a member from attending, speaking and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the AGM in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the relevant instrument appointing a proxy or proxies, to the AGM.

7. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (maintained by The Central Depository (Pte) Limited), he should insert that number of shares. If the member has shares registered in his name in the Register of Members (maintained by or on behalf of the Company), he should insert that number of shares. If the member has shares entered against his name in the Depository Register as well as shares registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member.

8. The Company shall be entitled to reject an 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 (including any related attachment). In addition, in the case of a member whose shares are entered in the Depository Register, the Company shall be entitled to reject any instrument appointing a proxy or proxies which has been lodged if such member, being the appointor, is not shown to have shares entered against his name in the Depository Register at least 72 hours before the time appointed for the AGM, as certified by The Central Depository (Pte) Limited to the Company.

AFFIX
POSTAGE
STAMP

The Company Secretary

**YONGNAM HOLDINGS LIMITED**

51 Tuas South Street 5

Singapore 637644

# CORPORATE **INFORMATION**

**BOARD OF DIRECTORS**
Seow Soon Yong
(Managing Director/CEO)
Chia Sin Cheng
Siau Sun King
Seow Soon Hee
Lim Ghim Siew, Henry
Goon Kok Loon
Liew Jat Yuen, Richard
Tan Eng Kiat, Dominic

**AUDIT COMMITTEE**
Goon Kok Loon (Chairman)
Lim Ghim Siew, Henry
Liew Jat Yuen, Richard

**REMUNERATION COMMITTEE**
Lim Ghim Siew, Henry (Chairman)
Goon Kok Loon
Tan Eng Kiat, Dominic

**NOMINATING COMMITTEE**
Tan Eng Kiat, Dominic (Chairman)
Goon Kok Loon
Liew Jat Yuen, Richard

**COMPANY SECRETARIES**
Pan Mi Keay, ACIS
Ong Bee Choo, ACIS
(Resigned on 23 January 2020)

**REGISTERED OFFICE**
51 Tuas South Street 5
Singapore 637644
Telephone: (65) 6758 1511
Fax: (65) 6758 0753
Email: info@yongnamgroup.com
Website: www.yongnamgroup.com

**COMPANY REGISTRATION NUMBER**
199407612N

**SHARE REGISTRAR**
Tricor Barbinder Share Registration Services
80 Robinson Road
#02-00
Singapore 068898

**AUDITORS**
Ernst & Young LLP
One Raffles Quay North Tower, Level 18
Singapore 048583

**AUDIT PARTNER**
Lee Wei Hock
(Appointed with effect from financial year ended 31 December 2017)

**PRINCIPAL BANKERS**
Malayan Banking Berhad, Singapore Branch
United Overseas Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

**YONGNAM HOLDINGS LIMITED**
51 Tuas South Street 5
Singapore 637644
**T**: 65 67581511
**F**: 65 67580753
info@yongnamgroup.com
www.yongnam.com.sg