CDW Holding Limited

# DRIVING PROGRESS SUPPLEMENTAL GROWTH

ANNUAL REPORT 2017

# A RELIABLE OUTSOURCING PARTNER WITH JAPANESE PRECISION

## 日本の技術力と信頼性を世界へ

With an eagle-eyed focus on producing higher margin, popular consumer electronics, while expanding prudently and managing costs, we are on the right course for long-term sustainable growth. That's Sound Strategy.

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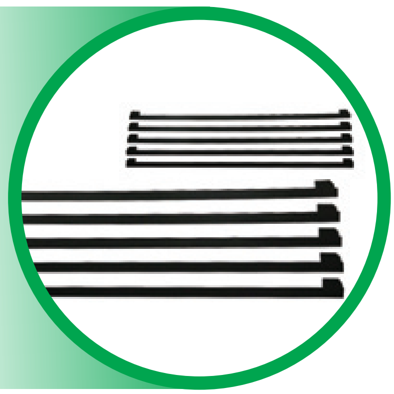
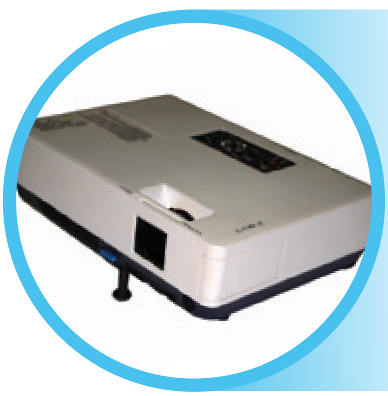
# CORPORATE PROFILE

**CDW Holding Limited** is a Japanese-managed precision components specialist serving the global market focusing on the production and supply of niche precision components for mobile communication equipment, gamebox entertainment equipment, consumer and information technology equipment, office equipment and electrical appliances.

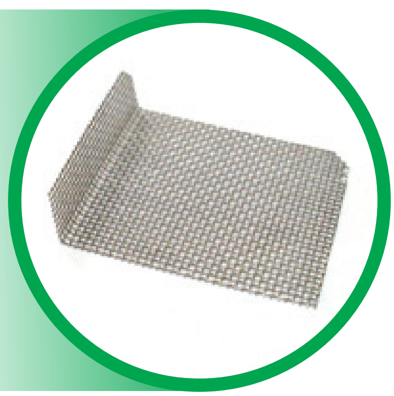
**LCD Backlight Units**

**LCD Parts and Accessories**





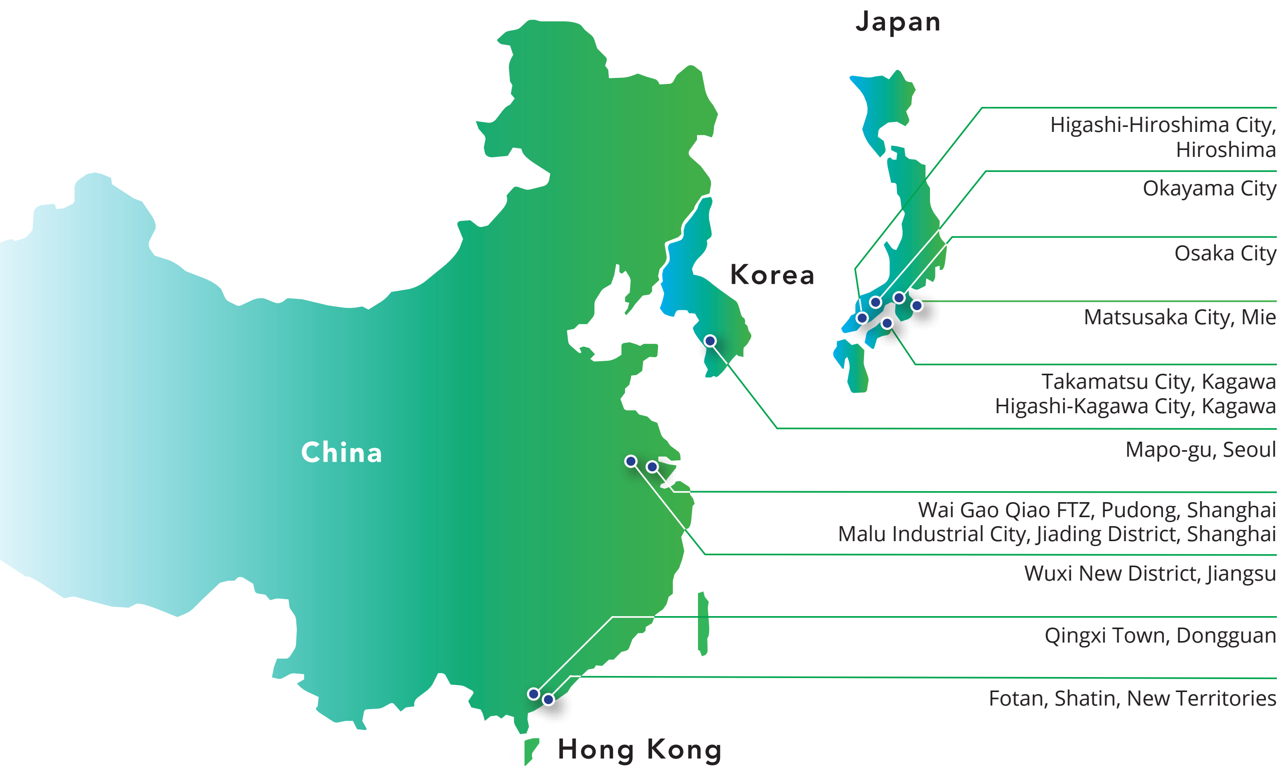
**Office Automation**



Applications

Our Products

# LOCATIONS OF OPERATIONS





A Biotech Co., Limited


Ajikobo Muguruma of TWB Co., Limited


CDW Life Science Limited in Okayama Research Park Incubation Center

Crystal Display Components (Shanghai) Co., Limited


Dongguan Dali S.M.T. Assembly Limited


GSP Enterprise Inc.


Menkobo Muguruma Co., Limited


Minami Tec (Wuxi) Co., Limited


Tomoike Industrial Co., Limited


Tomoike Precision Machinery (Dongguan) Co., Limited


Tomoike Precision Machinery (Shanghai) Co., Limited


Wah Hang Precision Machinery (Dongguan) Limited

# CORPORATE MILESTONES

**1991**

Our founder, Mr Yoshimi, set up TM Hong Kong as a private trading company in Hong Kong engaging in the trading of precision accessories for electrical and electronic appliances.

**1993**

The Group identified the trend of large Japanese corporations shifting their production facilities to China and started supplying them with cost efficient precision accessories sourced from manufacturers in Hong Kong and China.

**1996**

The Group established TM Shanghai in Jiading, Shanghai, China to manufacture precision accessories for customers involved in the production of office equipment.

**2001**

CD Shanghai commenced production of LCD Backlight Units for colour mobile phones.

**2002**

The Group established Crystal Display Components (Suzhou) Co., Limited ("CD Suzhou") for the manufacture of metal and plastic frames and began to produce precision metal and plastic components for notebook monitors.

**2003**

The Group established TM Pudong to perform the processing functions of precision components for our LCD Parts and Accessories business.

**2005**

Shares of the Company were listed on the main board of the Singapore Stock Exchange in January. TM Dongguan was established and commenced production of LCD Backlight Units for colour mobile phones and entertainment equipment in December.

**2006**

The Group acquired the controlling stake in TM Japan in July. TM Japan joined the Group to extend the Group's sales and marketing network in Japan, supplying precision components for LCD Backlight Units and related products and supplying and manufacturing precision accessories for office equipment and electrical and electronic appliances.

**2007**

CD Suzhou completed the relocation to new factory for further expansion of business in July. The Group completed the acquisition of TM Japan by issuing 18,405,221 new shares as consideration in September. As a result of the completion, TM Japan became a wholly-owned subsidiary of the Group.

**2008**

The Group expanded capacity for Office Automation segment and WH Dongguan started production in September. This Dongguan factory aims to serve customers in Southern China.

# CORPORATE MILESTONES

**2010**

The Group acquired 72% equity interest in SMT Hong Kong, a company specialising in the provision of surface mounting technique services in electronics production assembly.

**2011**

SMT Dongguan and GCY Shanghai were established in order to secure and enhance the business of the Group. The Group increased equity interest from 72% to 86% in SMT Hong Kong.

**2012**

Mr Urano succeeded as Chairman and CEO from our founder, Mr Yoshimi, and formed new board. Disposal by CD Suzhou of its factory premises approved at SGM by shareholders in October.

**2013**

The Group acquired 100% equity interest in MT Wuxi. CD Suzhou terminated business operations and applied for voluntary liquidation.

**2014**

The Group increased equity interest from 86% to 100% in SMT Hong Kong. SMT Hong Kong became a wholly-owned subsidiary of TM Hong Kong. Guru Guru was established to perform general trading in Hong Kong.

**2015**

The Group incorporated Muguruma in Japan to enter food and beverage business. The Group acquired 25% equity interest in Suzhou Pengfu to secure a continuous supply of light guide panels which are a key component of LCD Backlight Units.

**2016**

BJ Cooperation was incorporated in Bangladesh in March to look for business opportunities. The Group set up TWB in Japan in April to expand food and beverage business. The Group acquired intellectual property rights in August to explore and develop a new biotech business.

**2017**

CLS was incorporated in Japan in January to provide Bio-tech related research and market of healthcare and beauty products.

**2018**

The Group acquired 95% equity interest in GSP for research and development of an antibodies library in January.

**2018**

ABio was incorporated in Korea in January for application of biotechnology to research and develop antibodies-related products.

# MESSAGE TO SHAREHOLDERS FROM RETIRING CHAIRMAN AND CEO

**DEAR SHAREHOLDERS,**

It has been an honour and pleasure for me to serve as Chairman and CEO since taking over the helm in 2011. During my tenure, I have witnessed the Group progress, endure, evolve and thrive, constantly capitalising on opportunities and addressing challenges alike while remaining agile and resilient.

As a Group, we weathered through numerous challenging events such as the stiff price competition in China, technological changes, shorter product life cycles, customers' difficulties, alongside the overall slower economic growth in China and around the world. We also have had to deal with the policies of a new US president and their effects on China and the rest of the world.

Notwithstanding these external forces, our strengths and capabilities are especially pronounced on an industry level. While our performance was heavily tied to that of a key customer, we have always been proactive in our efforts to innovate and develop new income streams to buttress our core business while simultaneously identifying other opportunities to invest in and add value to the Group.

I believe that the above was made possible because of the combination of assets and most importantly, people. The dedication, tenacity and innovation of the management and staff coupled with the support and faith of our shareholders are the core that fuels the Group.

Another element of our success can be attributed to the strong support from our shareholders, partners and key customers. These strong relationships are invaluable and have helped us pave the way for new opportunities and solutions. We are also constantly refining and redeploying our resources to optimise workflow processes for maximum results.

The recent difficulties of our key Japanese customer have helped us focus and redouble our efforts to diversify from our core business and to identify new businesses to invest in with the potential for growth. That is why our foray into the Life Sciences business is important. We are approaching this business opportunistically but realistically, by leveraging on our network with the scientific community. We aim to identify research-driven yet commercialisable projects that can have a positive impact on the quality of human life. Our focus is to acquire intellectual property ("IP") that we can fund and support the research of, and later eventually commercialise those IP.

Looking to this exciting future, my retirement as Chairman and CEO from the Board is not the end. I continue to be the chief executive officer of CDW Life Science Limited ("CLS") in Japan and work closely with our research teams and colleagues to build up the Life Sciences business as an engine of growth for the Group.

Our entry into the Life Sciences scene began in 2016, through the acquisition of Meisterbio Co., Limited's ("Meisterbio") eight intellectual property rights ("IPs") as well as their sales and distribution rights. To date, we have obtained patent approval for one of four IPs that were applied in Japan. This patented IP is currently undergoing feasibility testing with a potential customer in Japan for cosmetic product applications. An international patent for this IP has also been applied in South Korea.

# MESSAGE TO SHAREHOLDERS FROM RETIRING CHAIRMAN AND CEO

It is expected that the patent applications for the other three IPs will likely be granted approval in the coming months of FY2018 while the remaining IPs are still in various stages of development for external applications. While awaiting patent approvals or undergoing further development for the other IPs, CLS is distributing Meisterbio's existing products to generate additional revenue from this segment.

The Group's business has also expanded into biotechnology with the recent acquisition of GSP Enterprise Inc. ("GSP"). GSP holds a patent for their synthetic antibody library and its principal activity is in the research and development of antibodies. GSP was first established by the late Honorary Professor Shimizu Nobuyoshi of Keio University. Late Professor Shimizu was on the global genome research frontier and not only furthered genome analysis, but also discovered causative genes such as Parkinson's disease, autoimmune disease, hearing loss, and glaucoma. GSP was then established to support his research and to expand upon his work.

The current research team is building on the work of the late Professor Shimizu and attempting to construct a new and enlarged antibody library that may be used for other research purposes, and concurrently developing a new antibody screening system for the influenza virus.

GSP's research and development can potentially make headway in the field of investigative medicine through identifying and developing specific antibodies to target tumours, viruses or other diseases. Such treatments may be preferred over others like the harmful radiotherapy or chemotherapy for cancer patients, for example. The Group intends to market and licence the antibody library to relevant biotech or pharmaceutical companies for research and development or do contract research for them, with the aim of creating alternative therapies for diseases.

Following GSP's acquisition, we have incorporated A Biotech Co., Limited ("ABio"), a wholly-owned subsidiary in South Korea. ABio was formed to spearhead our efforts in the Korean market, where they will be leveraging on GSP's patented synthetic antibody library to conduct antibody research and development in South Korea. South Korea's biotech scene is bustling with biotech startups being able to gain access to better funding for research and development.

# MESSAGE TO SHAREHOLDERS FROM RETIRING CHAIRMAN AND CEO


ABio will be led by Mr Yoshimi Kunikazu as non-executive chairman, and he is supported by a team of strong talents with Mr Jeong Do-Young as chief executive officer, and Mr Lee Hae-Jin as chief marketing officer. Mr Jeong is a certified public accountant and consultant with experience in initial public offerings, mergers and acquisition, funding and business analysis in South Korea. Mr Lee has an extensive sales and marketing background in pharmaceuticals during his employment at one of South Korea's top pharmaceutical companies.

While our progress in this segment is still nascent, we believe that greater things are in store for the Group and the assets and connections are already in place to make these prospects a reality. We will continue to look to the acquisition of other building blocks to help broaden our Life Sciences business. We believe that our current research efforts in "Preventative Nutraceuticals" and "Investigative Medicine" are going to be more important in the biomedical field, given the global ageing population.

In closing, I would like to wish members of the CDW board and staff all the best in their ongoing endeavours to grow the business. Thank you for walking this journey with me and it was a privilege working alongside everyone involved. I would also like to thank shareholders and partners for your unwavering support and wish to assure them that CDW is in good hands, while I concentrate my efforts to lead and grow the business in CLS.

Yours Sincerely,
**URANO KOICHI**

# LETTER TO SHAREHOLDERS

**DEAR SHAREHOLDERS,**

We are pleased to share our results for the financial year ended 31 December 2017 ("FY2017") and highlight some notable achievements which saw the Group overcome challenges in its core business and make some progress in its diversification efforts.

In FY2017, we repurposed our Dongguan factory to make way for an OEM business in assembling mobile payment devices for a customer. This OEM business and the mass production orders by our key customer continued to enhance profitability. Despite the challenging business environment for the Group's core businesses, our long-term strategy of refining existing businesses and diversifying is showing promise.

The LCD Backlight Units segment maintained a largely stable performance, delivering a revenue of US$59.8 million for FY2017 on the back of stable demand for our products for use in in-vehicle information displays and the demand for a new model of gameset device by our key customer.

The LCD Parts and Accessories segment saw a more muted performance with year-on-year sales for the segment lower by 6.3% to US$20.7 million. The fall was largely due to fewer orders placed by display manufacturers in Hong Kong and a key customer's decision to bring production in-house. The lower revenue contribution was partially mitigated by revenue from our new OEM business.

The Office Automation segment saw an improvement with sales rising 4.7% to US$22.1 million, driven by new business from a key customer at a more favourable rate. This helped improve operating profit to US$1.2 million in FY2017.

In our Other Segment comprising the food and beverage ("F&B") and life sciences businesses, revenue from the F&B division fell due to the closure of our Japanese restaurant in Shanghai. Our Life Sciences division on the other hand, generated a maiden contribution of US$0.6 million from the distribution of Meisterbio's products in Japan.

In total, the Group's revenue for FY2017 remained largely unchanged compared to FY2016, rising slightly to US$104.1 million from US$103.2 million the year before, while profit after tax increased to US$1.7 million from US$0.4 million in FY2016.

**"We expect to continue seeking investments that will refine or add value to our core businessess. This will allow us to build upon our established strengths whilst we simultaneously look for opportunities to diversify into new areas that have the potential to become significant revenue resources."**

**OUTLOOK AND STRATEGY**

As the industry continues its preference for OLED screens in smartphones, the Group will continue to focus on in-vehicle information displays for its LCD Backlight Units segment as it is more stable with greater order visibility and a reasonable profit margin. We are also working closely with our key customer to develop the backlight units for larger information display panels used in premium vehicles and for ultrathin notebook computers. We are optimistic of our prospects and in preparation for the upcoming demand, we have invested in a number of automated machines for our Shanghai plant to enhance efficiency and competitiveness. Meanwhile, the conversion of the Group's new generation light guide film used in the backlight units for ultrathin notebook computers proceeds at a steady pace, and is expected to have a high chance to receive mass production orders by the second half of FY2018.

The LCD Parts and Accessories segment which was losing trading orders of raw materials and parts for small to medium sized liquid crystal displays, is recovering and has received orders for use in ultrathin notebook computers. However, due to the segment's relatively smaller size and lack of regular orders, it may be scaled down to allow the Group to realign its focus in growing other segments.

# LETTER TO SHAREHOLDERS

Included as part of the LCD Parts and Accessories segment, the earlier mentioned OEM business refers to the supply of wireless mobile payment devices. This has shown promise with noteworthy contributions to the Group's profitability and has much room for growth as businesses gear towards a cashless and technologically advanced society. The Group is looking to better capitalise on this growing demand for wireless mobile payment devices as well as other OEM businesses for consumer products.

The Office Automation segment is similarly improving and the Group is taking orders for new models from new and existing customers. We will be looking into growing the product line-up in order to further develop this segment.

Moving forward, we aim to reclassify and combine both LCD Parts and Accessories as well as Office Automation under a single business segment. This is due to an increasing trend of customers requiring clean room production processes for the Office Automation segment, a method primarily used in the LCD Parts and Accessories segment. As such, the reclassification would not only be more logical but would also streamline our reporting process.

As for our F&B business, our investment in Menkobo Muguruma Co., Limited, a restaurant with a 90-year-history of serving quality udon, has expanded its business with the opening of a second outlet in Japan. However, the additional expenditure of a new outlet has affected the overall performance of this segment.

## DIVERSIFICATION & RISK MANAGEMENT

The year under review has seen the Group make strides in its diversification efforts with the life sciences and OEM businesses coming foremost to mind. We see these developments as positive indicators of our pursuit of the right strategies to enhance the Group's long-term and sustainable value, given that the challenges for our core business are unlikely to abate.

We expect to continue seeking investments that will refine or add value to our core businesses. This will allow us to build upon our established strengths whilst we simultaneously look for opportunities to diversify into new areas that have the potential to become significant revenue sources. Finally, we will also be on the lookout for financial investments for more short-term returns.

Our efforts to manage costs and refine production processes is exemplified in the upgrade of our LCD Backlight Units production with automation. This helps us better manage costs and improve the consistency and quality of production. Going forward, we will carry on improving our workflow processes and management to maintain an efficient business operation. Risk management continues to be a priority and we have a conservative approach to risk which is balanced with our efforts in continuous improvement.

## CONCLUSION

We would like to show our appreciation to our Chairman and CEO Mr Urano Koichi for his guidance and contributions over the years. His departure from the Board will see him to continue his role as chief executive officer of CDW Life Science Limited. Once again, the Group relies on Mr Urano's experience and leadership in this new business venture.

As part of Group leadership renewal, Mr Yoshikawa Makoto will succeed Mr Urano to become the new CEO and we look forward to his contributions. At the same time, we would also like to extend our thanks to our dedicated management team and staff for another year of hard work. We are also thankful for the ongoing support of our shareholders, business partners and professionals in Japan, Hong Kong, Singapore, China and South Korea. We look forward to working together with all parties to further refine, diversify and grow the Group.

In order to show our appreciation to our shareholders for their unwavering support, we are proposing a final dividend of 0.7 US cent per ordinary share subject to shareholder approval at the upcoming Annual General Meeting. If approved, the total dividend for FY2017 will be 1.2 US cents per ordinary share, after including the earlier declared interim dividend of 0.5 US cent per ordinary share.

**The Board of Directors of**
**CDW Holding Limited**

# FINANCIAL AND OPERATIONS REVIEW

## STATEMENT OF PROFIT OR LOSS

The year ended 31 December 2017 saw the Group overcoming challenges and making strides in diversifying its business to deliver notable results. Total revenue for the year increased to US$104.1 million, slightly higher than the US$103.2 million reported in FY2016. The Group achieved higher sales in most business segments which offset a slight shortfall in the LCD Parts and Accessories segment performance due to a reduction of orders from display manufacturers in Hong Kong.

While total revenue was largely unchanged, the fruits of the Group's ongoing efforts to diversify its businesses and refine its operations are more apparent when reviewing its gross profit margin for the year which climbed up 2.0% to 26.0% as a result of the consolidation of facilities. Gross profit for the year also improved, rising by 9.7% to US$27.1 million as compared to the US$24.7 million reported a year before.

The Group's other operating income dipped slightly, coming in lower by 3.7% at US$0.9 million. This component, which mainly consists of interest income, was lower for the year under review due in part to the absence of a disposal of scrap materials.

Moving on to operating expenses, distribution expenses were higher due to an increase in freight and storage and packing materials costs due to the shipment of LCD backlight units from the Group's Shanghai plant to our key customer's production plant in southern China, which was served by the Group's Dongguan plant in the past. It resulted in an increase to US$2.1 million as compared to US$1.6 million a year before.

Administrative expenses saw a US$0.1 million reduction to US$20.2 million as a result of a lower headcount due to the automation of some of our production processes. Included in administrative expenses was a fair value loss of held for trading investment totalling approximately US$0.2 million.

The Group continued to maintain a low gearing ratio with finance costs marginally increased from US$0.09 million in FY2016 to US$0.14 million for FY2017.

The Group made an impairment for the loss of investment in an associate company in which it has a 25% stake. The global economic slowdown took a greater toll on the associate company resulting in an impairment loss of US$0.9 million. The amount was calculated on the basis of value in use under the discounted cash flow method.

Income tax expenses for the year under review was higher, coming in at US$2.8 million as compared to US$2.6 million in the previous financial year. This was due to the high effective tax rate arising from the Group's profit-making subsidiaries which were not being offset by the tax credit of loss-making subsidiaries.

As a result of the developments mentioned earlier, the Group's profit before tax improved by 50.0% to US$4.5 million for the year under review as compared to the US$3.0 million in FY2016. Profit after tax likewise increased, improving to US$1.7 million from US$0.4 million in FY2016.

### LCD Backlight Units

The LCD Backlight Units segment remained stable, contributing a total of US$59.8 million (2016: US$59.1 million) to Group sales on the back of a steady demand for use of in-vehicle information displays and the demand by our key customer for a new model of gameset device. The quantity of mass production orders for this new gameset model decreased drastically in the fourth quarter of the financial year under review and orders were even suspended in December 2017 due to inventory adjustment made by the key customer which resulted in a significant drop in revenue in the fourth quarter. Operating profit for the segment improved to US$7.5 million as compared to US$5.8 million in FY2016 due to the consolidation of production facilities.

The total number of units sold for this segment amounted to 21.4 million units (2016: 17.5 million units). Approximately 0.9 million units were sold for handsets (2016: 3.0 million units) and another 20.5 million units were sold for gamesets and in-vehicle information displays (2016: 14.5 million units). This is a 70.0% decrease and a 41.4% increase respectively.

# FINANCIAL AND OPERATIONS REVIEW

### LCD Parts and Accessories

LCD Parts and Accessories saw a slight dip in sales, shrinking by 6.3% to US$20.7 million from US$22.1 million previously. The results were largely suppressed due to the reduction of orders from display manufacturers in Hong Kong and a loss of orders when a key customer shifted production to its own factories. The reduction which amounted to about US$5.0 million was partially mitigated by the inclusion of revenue from our new OEM business. The segment's operating profit saw an improvement from US$0.7 million in FY2016 to US$1.1 million in FY2017.

### Office Automation

In contrast, the Office Automation segment achieved higher sales due to new business from a key customer at a more favourable rate. Turnover for this segment rose by 4.7% to US$22.1 million from US$21.1 million previously. Operating profit likewise improved, rising to US$1.2 million from US$0.4 million previously.

### Other Segment

The Other Segment comprises the food and beverage ("F&B") and life sciences businesses. The operation of the Japanese restaurant in Shanghai was terminated, which reduced the revenue in the F&B division from US$1.0 million in FY2016 to US$0.9 million in the year under review while the life sciences division generated a revenue of US$0.6 million from distributing Meisterbio's products in Japan during the year. After deducting operating expenses, the segment's operating loss increased to US$1.5 million as compared to US$0.1 million in the last year.

## STATEMENT OF FINANCIAL POSITION

For the year under review, the Group's total assets amounted to US$88.5 million, a US$5.0 million difference from the US$83.5 million last year. Total liabilities also increased to US$27.6 million as compared to the US$23.2 million previously.

Total current assets rose to US$78.9 million for the year as compared to the US$72.6 million reported in FY2016. The increase was mainly due to longer credit terms requested by a key customer from 60 days to 120 days. Meanwhile, cash and bank balances came in lower at US$43.8 million as compared to US$45.0 million in FY2016. Trade receivables were 37.9% higher at US$24.0 million, a US$6.6 million increase from US$17.4 million as a result of these longer credit term periods.

Other receivables and prepayments mainly represented utility deposits, prepaid expenses and value-added tax recoverable. Included in loan and receivables is a funding to a third party under a secured trade finance arrangement at an interest rate of 1% per month to generate additional interest income. Meanwhile, the held for trading investments represented investment in shares listed in Hong Kong.

Total non-current assets were US$1.3 million lower, falling from US$10.9 million to US$9.6 million for the year. The reduction was primarily due to a trio of factors, the first being a US$0.1 million reduction in other assets to US$0.4 million and another US$0.4 million dip in property, plant and equipment to US$6.7 million from US$7.1 million previously. Lastly, investment in an associate dipped by US$1 million, representing the provision of impairment, from US$1.4 million to US$0.4 million. Included in the available-for-sales investment was mainly related to an equity investment in a Korean company which offers the Group the manufacturing and distribution rights for its products, and there was no impairment for the year with reference to the market value of this equity investment. Prepayment for the acquisition of the intangible asset represents an advance payment for the application of research results related to biotech products and their related patents.

Total current liabilities climbed 15.0% to US$25.3 million from the US$22.0 million reported last year.

Trade payables remained stable at US$11.1 million as compared to US$11.5 million for last year. There was no material change in credit terms offered by the suppliers to the Group. Bank borrowings increased US$2.7 million to US$8.0 million while other payables and accruals, comprising accruals for expenses, wages payable and value added tax payables, increased US$0.8 million to US$4.8 million for the year under review.

The Group's income tax payable saw a slight increase from US$1.0 million to US$1.3 million.

Non-current liabilities was logged at US$2.3 million as bank borrowings was US$0.9 million higher for the year under review to finance working capital for our new OEM business and accommodate the new credit terms.

## STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2017, the Group's net cash used in operating activities amounted to US$3.5 million as compared to net cash from operating activities amounted to US$0.6 million for the last year. This was mostly due to increases in working capital to finance a longer credit term to our key customer and the net income tax paid amounting to US$2.5 million.

Moving on to investing activities, there was a net cash inflow of US$0.3 million which was mainly attributed to the receipt of interest income and a decrease in the loans and receivables and other assets. During the year under review, total amount of US$1.0 million was invested into property, plant and equipment.

Lastly, for financing activities there was a net cash inflow of US$0.7 million for the year under review. These activities included the net proceeds of bank borrowings amounting to US$3.6 million and the payment of dividends of US$2.3 million. This is inclusive of the final dividend of US$1.2 million for FY2016 and the interim dividend of US$1.1 million for FY2017. During FY2017, the Group repurchased its own shares through the open market amounting to US$0.5 million (2016: US$1.0 million).

## KEY FINANCIAL DATA

| US$mn | FY2017 | FY2016 | FY2015 | FY2014 | FY2013 |
|---|---|---|---|---|---|
| Total assets | 88.5 | 83.5 | 88.7 | 118.9 | 109.8 |
| Total liabilities | 27.6 | 23.2 | 22.8 | 48.8 | 40.8 |
| Current assets | 78.9 | 72.6 | 76.6 | 108.4 | 97.0 |
| Current liabilities | 25.3 | 22.0 | 20.7 | 43.2 | 35.8 |
| Shareholders' equity | 60.9 | 60.3 | 65.9 | 70.1 | 69.0 |
| Revenue | 104.1 | 103.2 | 118.1 | 151.8 | 175.1 |
| Profit before tax | 4.5 | 3.0 | 10.0 | 11.5 | 15.5 |
| Profit after tax | 1.7 | 0.4 | 7.9 | 8.4 | 11.3 |
| Earnings per share (US cents) | 0.75 | 0.17 | 3.34# | 3.52# | 4.82# |
| Dividends per share (US cents) | 1.20* | 0.7 | 2.4# | 2.4# | 2.4# |

* including the proposed final dividend for FY2017

\# adjusted for consolidation of two ordinary shares of par value @ US$0.02 each into one ordinary share of par value @ US$0.04 each on 26 August 2016

# FINANCIAL AND OPERATIONS REVIEW

## Key Operational Information / Data

### LCD Backlight Units Operating Subsidiaries
(TM Hong Kong, CD Shanghai, TM Dongguan* & TM Japan)

| | FY2017 | FY2016 | FY2015 | FY2014 | FY2013 |
|---|---|---|---|---|---|
| Revenue (US$mn) | 59.8 | 59.1 | 80.0 | 100.2 | 121.5 |
| Earnings before interest and Taxes (EBIT) (US$mn) | 7.5 | 5.8 | 7.5 | 11.5 | 15.1 |
| Gross floor area (sqm) | 7,620* | 19,096 | 19,731 | 19,731 | 19,731 |
| Clean room area (sqm) | 4,096* | 5,416 | 6,077 | 6,306 | 6,208 |
| Number of staff | 87 | 114 | 125 | 166 | 151 |
| Number of workers | 428 | 556 | 707 | 1,733 | 1,523 |
| Production capacity (units/mth) | 4,000,000 | 6,000,000 | 6,000,000 | 6,000,000 | 6,000,000 |

* TM Dongguan production was integrated into CD Shanghai in December 2017 and its gross floor area and clean room area were deployed to LCD Parts and Accessories segment.

### LCD Parts and Accessories Operating Subsidiaries
(TM Hong Kong, TM Pudong, TM Dongguan, TM Japan, SMT Hong Kong, SMT Dongguan & MT Wuxi)

| | FY2017 | FY2016 | FY2015 | FY2014 | FY2013 |
|---|---|---|---|---|---|
| Revenue (US$mn) | 20.7 | 22.1 | 21.1 | 26.4 | 30.6 |
| EBIT (US$mn) | 1.1 | 0.7 | 0.4 | 1.1 | 0.6 |
| Gross floor area (sqm) | 11,165# | 11,245 | 15,601 | 16,210 | 16,210* |
| Clean room area (sqm) | 3,687# | 2,590 | 3,400 | 2,107 | 2,107 |
| Number of staff | 73 | 83 | 107 | 129 | 144 |
| Number of workers | 270 | 148 | 210# | 518 | 605 |

* MT Wuxi was acquired in January 2013.

\# TM Pudong stopped production in October 2015 and its production area was excluded in the gross floor area in 2017, while TM Dongguan's gross floor area and clean room area were deployed from LCD Backlight Units segment in 2017.

### Office Automation Operating Subsidiaries
(TM Hong Kong, TM Shanghai, TM Japan, WH Hong Kong, WH Dongguan & GCY Shanghai)

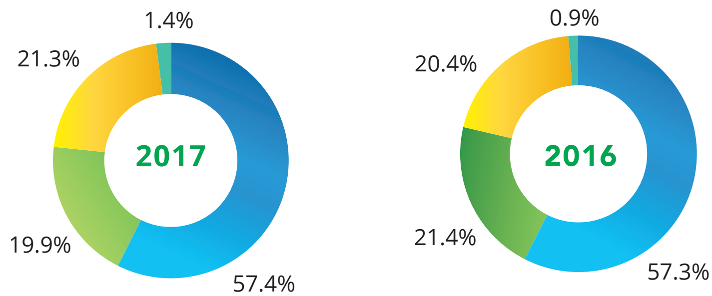
| | FY2017 | FY2016 | FY2015 | FY2014 | FY2013 |
|---|---|---|---|---|---|
| Revenue (US$mn) | 22.1 | 21.1 | 16.6 | 25.2 | 23.0 |
| EBIT (US$mn) | 1.2 | 0.4 | 0.1 | 0.7 | (0.1) |
| Gross floor area (sqm) | 7,236 | 7,236 | 7,236 | 7,236 | 7,236 |
| Clean room area (sqm) | 1,091 | 1,091 | 1,091 | 1,163 | 1,163 |
| Number of staff | 137 | 138 | 139 | 145 | 156 |
| Number of workers | 304 | 318 | 333 | 329 | 360 |

(Figures are based on December of each year.)

# FINANCIAL AND OPERATIONS REVIEW

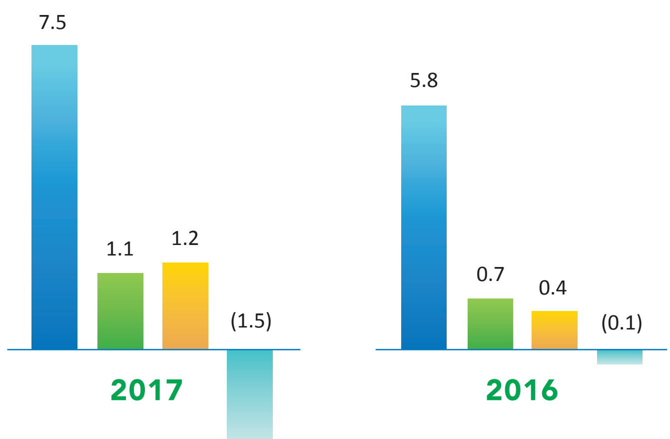
## Segmental Financial Highlights

### Revenue By Business Segment




| Revenue (US$mn) | FY2017 | FY2016 | %Change |
|---|---|---|---|
| LCD Backlight Units | 59.8 | 59.1 | 1.2 |
| LCD Parts and Accessories | 20.7 | 22.1 | (6.3) |
| Office Automation | 22.1 | 21.1 | 4.7 |
| Others | 1.5 | 0.9 | 66.7 |

### EBIT By Business Segment




| EBIT (US$mn) | FY2017 | FY2016 | %Change |
|---|---|---|---|
| LCD Backlight Units | 7.5 | 5.8 | 29.3 |
| LCD Parts and Accessories | 1.1 | 0.7 | 57.1 |
| Office Automation | 1.2 | 0.4 | 200.0 |
| Others | (1.5) | (0.1) | 1,400 |

LCD Backlight Units
LCD Parts and Accessories
Office Automation
Others

# BOARD OF DIRECTORS

## EXECUTIVE DIRECTORS

### URANO Koichi

**Chairman and Chief Executive Officer**

(Appointment: 5 March 2007 Last re-election: 28 April 2016)

On 31 March 2012, Mr Urano succeeded from Mr Yoshimi Kunikazu who founded the Group. As the Chief Executive Officer, he is responsible for overseeing the overall operations and strategy, planning and development of the Group. He has more than 22 years of experience and knowledge of the LCD technology and has made considerable contribution towards the development of Group's business in the Japanese and overseas markets.

### YOSHIKAWA Makoto

**Executive Director and Chief Operating Officer**

(Appointment: 1 February 2017 Last re-election: 28 April 2017)

Mr Yoshikawa was appointed as the Group's Chief Operating Officer on 1 May 2016 and is in charge of the overall operations of the Group, particularly in the sales and marketing, and new product development functions in existing core business. He also oversees overall strategy, planning and development of the Group. Mr Yoshikawa joined TM Japan in November 1999 and has been an executive officer of TM Japan since 2014 and has become its sole legal representative in February 2017. He has extensive sales experience in the LCD and backlight business and has exposure in procurement, human resources development and business development.

### DY MO Hua Cheung, Philip

**Executive Director and Chief Financial Officer**

(Appointment: 28 April 2008 Last re-election: 28 April 2016)

Mr Dy Mo was re-designated as the Chief Financial Officer on 26 February 2015, and is responsible for the overall management of our Group's financial and management reporting, budgeting, treasury, internal control, auditing functions and accounting and compliance processes. He joined our Group as Financial Controller and Head of Administration of the Group in 2003 and has extensive experience in the auditing and accounting profession. Mr Dy Mo graduated from the University of Birmingham, England and is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

# BOARD OF DIRECTORS

## INDEPENDENT DIRECTORS

### CHONG Pheng
**Lead Independent Director**
(Appointment: 31 May 2011    Last re-election: 28 April 2017)

Mr Chong started his own business in several different industries after retiring from the Singapore Armed Forces. He is the director and owner of Blue Forest Echo Pte Ltd, a director of Zhong Xing Venture Pte Ltd and Share Taxi Pte Ltd, and Sinkpia International Pte Ltd. and an independent director of CMON Ltd. He has also worked with several companies on marketing, sales and business development. He holds a First Class Honors Degree in Electronic and Electrical Engineering from the National Defense Academy in Japan, a Master of Science Degree in Defense Technology (Electronics) from Cranfield University (Royal Military College of Science) in England and a Graduate Diploma in the Organisation Learning from the Civil Service College in Singapore.

### LAI Shi Hong, Edward
**Independent Director**
(Appointment: 5 August 2004    Last re-election: 28 April 2017)

Mr Lai was re-designated from Executive Director to Non-Executive Director in October 2011, and now served as an Independent Director with effect from 26 February 2015. He has more than 30 years of experience in finance, accounting and business management, and is currently the chief financial officer and the company secretary of Wuling Motors Holdings Limited, a main-board listed company in Hong Kong. He graduated from the University of Hong Kong with a Bachelor of Arts and holds a Master of Science Degree in Corporate Governance and Directorship from the Hong Kong Baptist University. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales.

### MITANI Masatoshi
**Independent Director**
(Appointment: 31 May 2011    Last re-election: 29 April 2015)

Mr Mitani is a professional accountant by training and a certified public accountant. He has more than 22 years of experience in accounting, auditing, taxation and corporate secretarial work in Japan, Hong Kong and Singapore. He is currently the managing partner of an accounting and consultancy firm in Singapore. He is a permanent resident in Singapore since 2001. Mr Mitani graduated from the Kyoto University. He is a member of the Japanese Institute of Certified Public Accountants and the Institute of Singapore Chartered Accountants.

# KEY EXECUTIVE OFFICERS

## CHAN Kam Wah

**Head of Operations in Southern China**

Mr Chan is responsible for the overall operations in Hong Kong and Southern China. He has been the legal representative and General Manager of WH Dongguan, SMT Dongguan and TM Dongguan since March 2008, September 2015 and September 2016 respectively. In March 2017, he was promoted as General Manager of TM Hong Kong. Mr Chan joined the Group in 1999 and has extensive experience in the sales and marketing business.

## LEE Haeng Jo (also known as MORIYAMA Kozo)

**Head of Production and Corporate Planning**

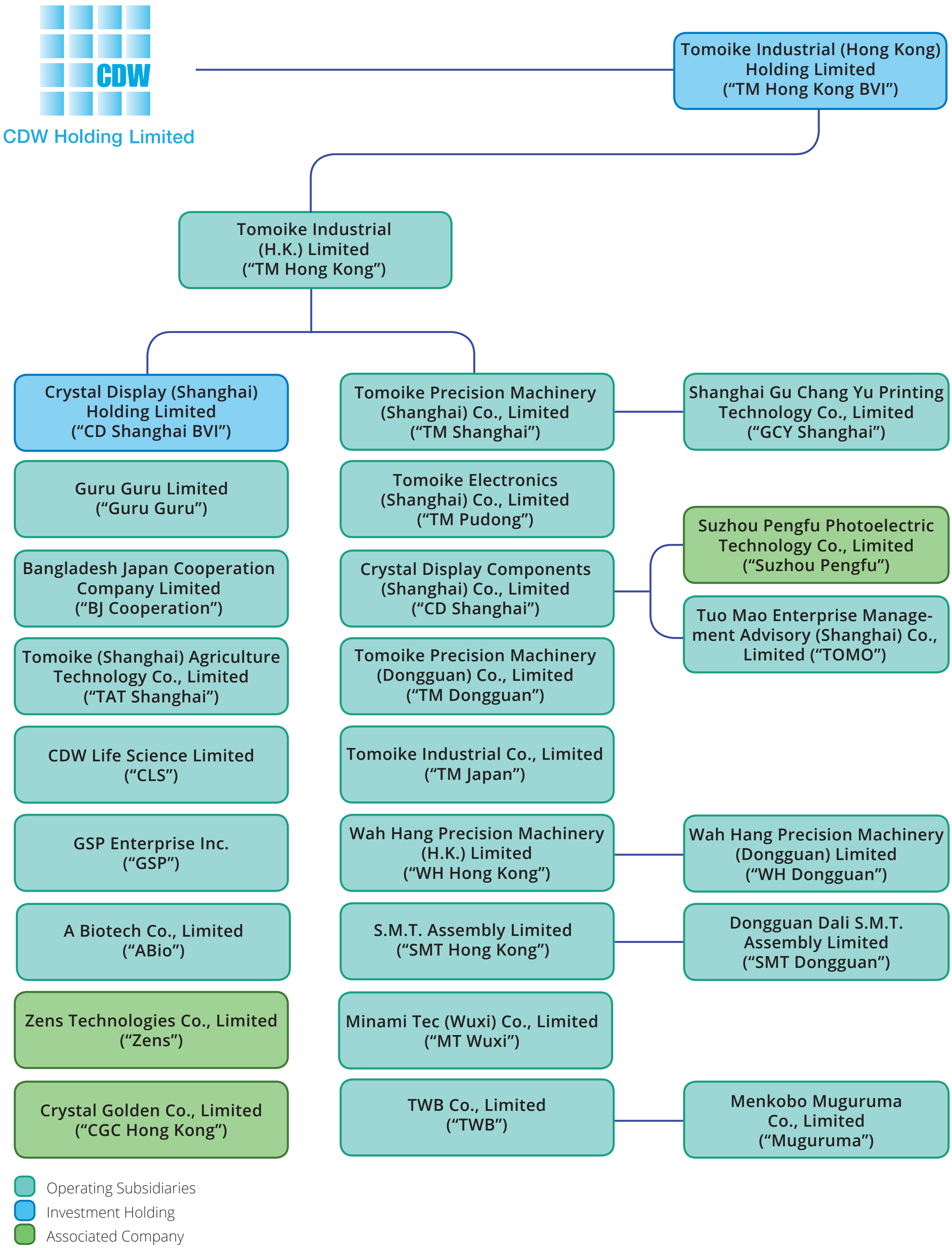
Mr Lee is responsible for overseeing the production facilities of the Group in Hong Kong and China. He was formerly engaged in our LCD backlight units division in Shanghai on a consultancy basis and contributed significantly to the success of this division. Mr Lee has more than 21 years of experience in sales and marketing in Japan. He is responsible for the corporate planning of the Group, and also addresses the improvement of business performance of the Group.

## SHINJO Kunihiko

**Head of Finance (Group Coordinator)**

Mr Shinjo is responsible for coordinating financial activities across the Group and establishing relationships with financial institutions overseas. He has more than 31 years of experience in accounting, financial control, treasury management and tax compliance in Japan. He joined the Group as the Branch Manager of Osaka Representative Office of the Group in 2005. He was appointed as non-executive director of TM Japan in 2006 and he has been an executive director of TM Japan since May 2012.

# CORPORATE STRUCTURE



# CORPORATE INFORMATION

## Board of Directors

**Chairman and Chief Executive Officer**
URANO Koichi

**Executive Director**
DY MO Hua Cheung, Philip
YOSHIKAWA Makoto

**Lead Independent Director**
CHONG Pheng

**Independent Directors**
LAI Shi Hong, Edward
MITANI Masatoshi

## Key Executive Officers

CHAN Kam Wah
LEE Haeng Jo (also known as MORIYAMA Kozo)
SHINJO Kunihiko

## Company Secretary

LEONG Chee Meng, Kenneth

## Audit Committee

LAI Shi Hong, Edward (Chairman)
CHONG Pheng
MITANI Masatoshi

## Remuneration Committee

CHONG Pheng (Chairman)
LAI Shi Hong, Edward
MITANI Masatoshi

## Nominating Committee

MITANI Masatoshi (Chairman)
CHONG Pheng
LAI Shi Hong, Edward

## Assistant Secretary

Estera Services (Bermuda) Limited
Canon's Court, 22 Victoria Street
Hamilton, HM12
Bermuda

## Bermuda Company Registration Number

35127

## Registered Office

Canon's Court, 22 Victoria Street
Hamilton HM12
Bermuda

## Principal Office

Room 6-10, 11th Floor, CCT Telecom Building
11 Wo Shing Street, Fo Tan, Shatin
New Territories, Hong Kong

## Singapore Share Transfer Agent

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place #32-01, Singapore Land Tower
Singapore 048623

## Bermuda Share Registrar

Estera Management (Bermuda) Limited
Canon's Court, 22 Victoria Street
Hamilton, HM12
Bermuda

## Auditors

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Audit Partner: KWONG Ka Yan
Date of appointment: 26 October 2017

## Investor Relations

Cogent Communications Pte Limited
51 Goldhill Plaza #22-05
Singapore 308900
Tel: 65 67049288
Email: staff@cogentcomms.com

# FINANCIAL CONTENTS

# CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") and the management ("Management") of CDW Holding Limited recognise the importance of and are committed to maintaining a high standard of corporate governance within the Company and its subsidiaries (the "Group") and have implemented self-regulatory corporate practices so as to enhance corporate transparency and protect the interests of the Company's shareholders.

This report describes the corporate governance practices and procedures of the Company, with specific reference to the principles and guidelines set out in the Code of Corporate Governance 2012 (the "Code"). The Company is guided in its corporate governance practices by the Code, and continues to strive towards maintaining accountability, high standards of corporate governance and corporate transparency. The Company is pleased to confirm that it is substantially in compliance with the Code and reasons for any deviation are explained below.

## BOARD MATTERS

### Principle 1: Board's Conduct of its Affairs

**Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.**

The members of the Board for the financial year 2017 and as at the date of this report are as follows:

| | |
|---|---|
| URANO Koichi | (Chairman and Chief Executive Officer) |
| KIYOTA Akihiro | (Executive Director and Chief Operating Officer – Resigned on 1 February 2017) |
| DY MO Hua Cheung, Philip | (Executive Director and Chief Financial Officer) |
| YOSHIKAWA Makoto | (Executive Director and Chief Operating Officer – Appointed on 1 February 2017) |
| CHONG Pheng | (Lead Independent Director) |
| LAI Shi Hong, Edward | (Independent Director) |
| MITANI Masatoshi | (Independent Director) |

The Board plays an effective role in leading and controlling the long-term corporate goals and overall strategies and direction of the Group. Through the Board's leadership, the Group's businesses are able to achieve sustainable and successful performance. Besides overall responsibility for corporate governance, the Board also oversees the day-to-day management and affairs of the Group and approves important business decisions involving the corporate and strategic directions of the Group. As part of the Group's strategic formulation, the Board may consider sustainability issues where applicable ( e.g. environmental and social factors). The Board also identifies key stakeholder groups, ensuring accurate, adequate and timely reporting and communication with Shareholders. It also sets the Company's values and standards (including ethical standards).

With regard to the Group's financial matters, the Board is responsible for reviewing periodic financial reports to assess its financial performance and implementing policies for risk management, internal controls and compliance. The Board is also responsible for assessing risks faced by the Group and reviewing and monitoring appropriate measures to manage such risks. In addition, the Board approves nomination of directors to the Board, changes in the composition of the Audit, Nominating and Remuneration Committees and appointment of key management personnel. For remuneration matters, the Board reviews and endorses the recommended framework of remuneration for the Board and senior management by the Remuneration Committee.

# CORPORATE GOVERNANCE REPORT

All Directors are expected to objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Group. However, to ensure that specific issues are subject to in-depth and timely review, certain functions have been delegated to various Board Committees, which would submit its recommendations or decisions to the Board. The Board Committees constituted by the Board are the Audit Committee ("AC"), Nominating Committee ("NC"), Remuneration Committee ("RC") and the Investment Committee (collectively, the "Board Committees"). Each of these Board Committees has its own terms of reference, which are reviewed on a regular basis. The entire Board retains overall control even though it has established these Board Committees to support to assist it in the discharge of its oversight function and the execution of its responsibilities. The effectiveness of each Board Committee is also constantly reviewed by the Board.

The Company has documented internal guidelines for matters that require Board approval. Matters which are specifically reserved for Board approval and where decisions by the full Board are required are matters where there is a potential conflict of interest involving a substantial shareholder or a Director; material acquisitions and disposal of assets; approval of interested person transactions; corporate or financial restructuring; material investments; share issuance; dividend declarations; appointment of new Directors and the approval of the annual budget, annual report, financial statements and financial results announcements which require public disclosures; and proposals from Board Committee(s).

The Investment Committee is a special task force formed by Management. The members are appointed by Executive Directors from amongst the members of the Board.

The members of the Investment Committee at the date of this report are as follows:

URANO Koichi (Chairman)
DY MO Hua Cheung, Philip
LAI Shi Hong, Edward

The primary function of the Investment Committee is to assist the Board in evaluating potential investment projects which create value for the Company.

Formal Board meetings will be held at least four (4) times a year to oversee the business affairs of the Group, and to approve, if applicable, any matters in relation to its financial or business affairs. Ad-hoc meetings will be convened when the circumstances require. The Company's bye-laws allow a Board meeting to be conducted by way of teleconference and videoconference. The schedule of all Board and Board Committee meetings for each financial year is planned well in advance, in consultation with the Directors.

# CORPORATE GOVERNANCE REPORT

The number of meetings held by the Board and Board Committees and attendance for the financial year 2017 are as follows:

| Directors | Board | | Audit Committee | | Nominating Committee | | Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| | No. of Meetings | Attended | No. of Meetings | Attended | No. of Meetings | Attended | No. of Meetings | Attended |
| URANO Koichi | 4 | 4 | – | – | – | – | – | – |
| KIYOTA Akihiro (Note 1) | – | – | – | – | – | – | – | – |
| DY MO Hua Cheung, Philip | 4 | 4 | – | – | – | – | – | – |
| YOSHIKAWA Makoto (Note 2) | 4 | 4 | – | – | – | – | – | – |
| LAI Shi Hong, Edward | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |
| CHONG Pheng | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |
| MITANI Masatoshi | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |

Notes:

1. KIYOTA Akihiro resigned on 1 February 2017.
2. YOSHIKAWA Makoto was appointed on 1 February 2017.

The Directors will receive further relevant training as and when appropriate, in particular on the application of new laws and regulations as well as the changing commercial risks which are relevant to the business and operations of the Group. The Directors will also be updated on the business of the Group through regular meetings and informal discussions. A newly appointed Director will be provided with a formal letter upon appointment, setting out the time commitment required and the director's duties and obligations; and will be briefed and informed on the Board and the Company's policies such as those relating to disclosure of interests in securities; disclosure of conflicts of interest in transactions; restrictions on dealings in the Company's securities; and the disclosure of price-sensitive information. The Company conducts a comprehensive orientation programme to familiarise new directors on the Group's business, operations, organisational structure, and corporate policies. They are also briefed on the Company's corporate governance practices and regulatory environment to assimilate them into their new roles. The orientation programmes are conducted by senior management and, will allow the new Director to get acquainted with senior management, thereby facilitating board interaction and also independent access to the senior management. In order to provide a new Director with a better understanding of the Group's business and operations, senior management will conduct visits to the Group's operating entities as part of the orientation programme. For any Directors who have no prior experience as a director of a listed company in Singapore, they will also attend training courses organised by the Singapore Institute of Directors or undergo other training funded by the Company in areas such as accounting, legal and industry-specific knowledge, as and when appropriate.

**Principle 2: Board Composition and Balance**

**There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and the Group's 10% shareholders[1].**

Note:
(1) Under the Code, the term "10% shareholder" refers to a person who has an interest or interests in one more voting shares in the Company and the total votes attached to that share, or those shares, is not less than ten percent (10%) of the total votes attached to all the voting shares in the Company. "Voting shares" excludes treasury shares.

Presently, the Board comprises three (3) Executive Directors (including the CEO) and three (3) Independent Directors. As Mr Urano Koichi is currently the Group's Chairman and Chief Executive Officer ("CEO"), Guideline 2.2 of the Code is met as the Independent Directors make up half of the Board composition. Each Director has been appointed on the strength of his caliber and experience.

The Board, with the assistance of the NC, will review its board size annually and determine what it considers to be an appropriate composition to ensure that the Group remains competitive and competent. In line with the Code, taking into account the requirements of the Group's businesses and the need to avoid undue disruptions from changes to the Board and Board Committees, the NC is of the view that the current size of the Board is not so large as to unwieldy or as to interfere with efficient decision-making. No individual or group dominates the Board's decision-making process.

The NC will also review the independence of each Independent Director annually with reference to the Code's definition of what constitutes an Independent Director and any other salient factors. The Independent Directors, namely MITANI Masatoshi, CHONG Pheng and LAI Shi Hong, Edward, have confirmed that they do not have any relationship with the Company or its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgement with a view to the best interest of the Company. The NC has reviewed and is satisfied that there are no relationships which would deem any of the Independent Directors not to be independent.

Mr Lai Shi Hong, Edward was first appointed as an Executive Director on 5 August 2004 and was re-designated as Non-Executive Director in October 2011. He was again re-designated and has been serving as an Independent Director from 26 February 2015. The Board concurred with the NC's view that Mr Edward Lai is independent in character and judgement and there were no circumstances which would likely affect or appear to affect his judgement.

The Board proactively seeks to maintain an appropriate balance of expertise, skills and attributes among the Directors. This is also reflected in the diversity of backgrounds and competencies of our Directors, whose competencies range from finance and accounting to relevant industry knowledge, entrepreneurial and management experience. This is beneficial to the Company and its management as decisions by, and discussions with, the Board are enriched by the broad range of views and perspective and the breadth of experience of our Directors. The NC is of the view that there is an appropriate balance of expertise and skills amongst the Directors as they collectively bring with them a broad range of complementary competencies and experience. A summary of the academic and professional qualifications and other appointments of each Director is set out on pages 16 and 17 of this Annual Report.

The Independent Directors who are Non-Executive Directors constructively review and assist in the development of proposals on strategy, and assist the Board in reviewing the performance of Management in meeting agreed goals and objectives, and monitoring the reporting of performance and operations as an appropriate check and balance.

# CORPORATE GOVERNANCE REPORT

**Principle 3: Chairman and Chief Executive Officer ("CEO")**

Mr URANO Koichi is currently the Group's Chairman and CEO.

The Board is of the view that accountability and independence have not been compromised despite the Chairman and CEO Officer being the same person. With half of the Board comprising independent directors, the Board is of the view that there is a sufficient element of independence and adequate safeguards against a concentration of power in one single person.

The single leadership structure adopted by the Group, whereby the Chairman of the Board and the CEO is the same person, is a decision arrived at by the Board following a deliberated thought-out process so as to ensure that the decision-making process of the Group would not be unnecessarily hindered.

As Chairman, Mr Urano leads the Board and bears responsibility for the workings of the Board, the corporate governance process of the Board of Directors with the support of the Directors and Management, setting the board meeting agenda in consultation with the Executive Directors and Management, and ensures that adequate time is available for discussion of all items on the agenda, in particular strategic issues. The Chairman reviews most board papers before they are presented to the Board of Directors and ensures that board members are provided with adequate and timely information. He encourages active participation and contribution from all Directors and facilitates constructive relations within the Board and between the Board and Management and facilitates the active contribution of Non-Executive Directors and ensures effective communications with Shareholders.

In his role as CEO, Mr Urano is responsible for (i) the formulation of the overall business and corporate policies and strategies of the Group; (ii) oversight of the day-to-day management of the business and operations of the Group; and (iii) leading the Group's business development strategies and efforts.

Given that the Chairman and CEO are the same person, Mr Chong Pheng has been appointed the Lead Independent Director of the Company with effect from 26 February 2015 to serve in a lead capacity to co-ordinate the activities of the other Non-Executive Directors to assist the Chairman of the Board and the Board to achieve and maintain effective corporate governance in managing the affairs of the Board and the Company. Before every board meeting, the Lead Independent Director will meet with the Chairman to brief him on the key discussion items considered by each of the AC, NC and RC during their respective board committee meetings. The Lead Independent Director is available to address Shareholders where they have concerns for which contact through normal channels such as the Chairman or the CEO of the Company is inappropriate. The Lead Independent Director also has the authority to call and lead meetings of the Independent Directors when necessary and appropriate, and to provide feedback to the Chairman after such meetings.

Mr Urano Koichi, Chairman and CEO, has notified the Board that he does not wish to seek re-election at the forthcoming Annual General Meeting ("AGM") and will retire as a Director and CEO following the conclusion of the Annual General Meeting. Mr Urano Koichi served as the general manager of Tomoike Industrial (H.K.) Limited from 1993 to 2003, and as an executive director of Tomoike Industrial Co., Limited ("TM Japan") from 2003 to 2013. Having been with the Group as Executive Director since 2007 and Chairman and CEO since 2012, Mr Urano Koichi, with the support of the Board, feels it is time for him to pass the reins on to the next generation of leadership. After his retirement from the Board, Mr Urano Koichi will still continue to be with the Group and will focus on the day-to-day operations of CDW Life Science Limited.

Following the retirement of Mr Urano as Chairman and CEO, the Board recommends the appointment of Mr Yoshikawa Makoto as the new CEO. With regards to the appointment of a new Chairman, the Board is currently evaluating the appointment of a suitable candidate and/or its option of a re-composition of the Board. When finalised, the appropriate announcement(s) will be made by the Company on SGXNet in due course.

**Principles 4 and 5: Board Membership and Performance**

**Not only should there be a formal and transparent process for the appointment and re-appointment of directors to the Board, there should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.**

**Nominating Committee**

The NC comprises all Independent Directors, namely MITANI Masatoshi, CHONG Pheng and LAI Shi Hong, Edward, and is chaired by MITANI Masatoshi.

According to the written terms of reference of the NC, the NC performs the following functions:

a) To review, assess, make recommendations to the Board on the appointment of directors including re-nominations and changes in the composition of Board Committees and making recommendations on the composition of the Board generally.

b) To regularly review and make recommendations to the Board on the Board structure, size and composition having regard to the scope and nature of the operations, the requirements of the business, the diversity of skills, experience, gender and knowledge of the Company and the core competencies of the Directors as a group.

c) To review, assess and recommend nominee(s) or candidate(s) for appointment or election as Directors to the Board having regard to their competencies, commitment, contribution, performance and independence.

d) To conduct succession-planning, in particular for the Chairman of the Board and CEO.

e) To determine annually if a Director is independent bearing in mind the circumstances set forth in the Code.

f) To decide whether or not a Director is able to and has been adequately carrying out his/her duties as a Director of the Company, particularly when he has multiple board representations, and/or other principal commitments.

g) To recommend to the Board internal guidelines to address the competing time commitments faced by Directors who serve on multiple boards and the maximum number of listed company board representations which any Director may hold.

h) To implement the process for assessment of the effectiveness of the Board as a whole, Board Committees and the contribution of each individual Director to the effectiveness of the Board.

i) To recommend training and professional development programmes for the Board.

The NC will assess the effectiveness of the Board as a whole, its Board Committees and the respective contribution of each Director annually. Whilst Board performance is ultimately reflected in the long-term performance of the Group, the Board believes that engaging in a regular process of self-assessment and evaluation of Board performance in order to identify key strengths and areas for improvement is essential to effective stewardship and to attaining success for the Company.

The Company has adopted a formal evaluation process. The Board assesses its effectiveness as a whole through the completion of a series of questionnaires by each individual Director. The NC collates the results of these questionnaires and formally discusses these results collectively with other Board members to address any areas for improvement. The appraisal process focuses on a set of performance criteria such as the evaluation of the size of the Board and composition of the Board; the Board's access to information; Board processes and accountability; Board effectiveness; Board standards of conduct and financial performance indicators; peer evaluations as well as the contribution of each Director to the effective of the Board. The Board is of the view that this set of performance criteria allows for appropriate comparison and addresses how the Directors have enhanced long-term Shareholders' value.

In recommending a Director for re-election to the Board, the NC considers, inter alia, the Director's performance and contributions to the Board (including attendance and participation at meetings, and time and effort accorded to the Group's business and affairs). Pursuant to Bye-law 104 of the Company's bye-laws, every Director shall retire from office once every three (3) years. The Company's bye-laws provides that at least one-third (1/3) of the Directors shall retire from office and subject themselves to re-election by Shareholders at every AGM. The NC has reviewed and recommended the re-nomination and re-election of Mr Mitani Masatoshi. The Board has accepted the recommendation of the NC.

In selecting new directors, re-nominating directors for re-election and changes in the composition of the AC, NC and RC, the NC will seek to identify the competencies required to enable the Board or the relevant Board Committee, as the case may be, to fulfil its responsibilities. In the situation for a new appointment, the NC prepares a description of the role and the essential and desirable competencies for the particular appointment. In re-nominating directors for re-election, the NC will have regard to the results of the annual evaluation of directors.

Adopting this rigorous selection process, the Board recommends that Shareholders approve the appointment of Mr Kato Tomonori as a Director of the Company at the forthcoming AGM. Upon his appointment, Mr Kato will be an Executive Director. The NC considers Mr Kato as a suitable candidate based on his skills, experience and contribution to the Group. Mr Kato joined TM Japan in 2003 as sales in-charge in the Liquid Crystal Division. In his career with the Group, Mr Kato was involved in backlight business activities in Japan to acquire and secure new orders for mass production, strengthening relationship between key customer and the Group in China and supervising operations of various subsidiaries in China.

Where necessary, external help may be sought to source for new directors, taking into consideration suggestions from the Board and Management. The NC meets with short-listed candidates to assess their suitability and to ensure that the candidates are aware of the expectations and the level of commitment required of them. Recommendations are put to the Board for its consideration and approval.

Each member of the NC shall abstain from deliberating and voting on any resolution in respect of the assessment of his/her performance or re-nomination as Director.

Guideline 4.4 of the Code recommends that the Board determines the maximum number of listed companies Board appointments, which any Director may hold, and discloses this in the Annual Report. The NC's guideline adopted by the Board is that the number of directorships in listed companies that a Board member holds should not be more than five (5). The Board noted that none of the Directors holds more than two (2) directorships in listed companies. In this regard, the NC is satisfied that the Directors have devoted sufficient time and attention to the Group.

The Board takes a view that the reasons for any appointment of an alternate director will be evaluated and such reasons must be justifiable before any alternate director is appointed. There is no alternate director being appointed by the Board for the financial year ended 31 December 2017.

**Principle 6: Access to information**

**In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.**

The members of the Board have access to complete information on a timely basis and in the form and quality necessary for the discharge of their duties and responsibilities. Prior to each Board meeting, the members of the Board will be provided with management reports containing complete, adequate and timely information on major operational, financial and corporate issues, and other relevant documents and explanatory information required to support the decision-making process. In respect of budgets, any material variances between the projections and actual results are disclosed and explained during AC and Board meetings.

The Board has direct and independent access to senior management and the Company Secretary at all times. The Company Secretary, who administers, attends and prepares minutes of Board meetings, assists the Chairman in ensuring that Board meeting procedures are properly followed and the Company's bye-laws and relevant rules and regulations are complied with, including requirements of the Bermuda Companies Act and the SGX-ST. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

If Directors require independent professional advice in the furtherance of their duties, the cost of such professional advice will be borne by the Company.

## REMUNERATION MATTERS

**Remuneration Committee ("RC")**

**Principle 7: Procedures for Developing Remuneration Policies**

**There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his/her own remuneration.**

The RC comprises all Independent Directors, namely CHONG Pheng, LAI Shi Hong, Edward and MITANI Masatoshi, and is chaired by CHONG Pheng. Each member of the RC shall abstain from voting on any resolutions in respect of his/her own remuneration package.

According to the written terms of reference of the RC, the functions of the RC are as follows:

a) 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 of Directors from time to time.

b) As part of its review of the remuneration and benefits policies and practices of the Company, the RC shall take into consideration:

   (i) that the remuneration packages should be comparable within the industry and in comparable companies. A significant and appropriate proportion of executive directors' and key management personnel's remuneration should be structured so as to link rewards to corporate and individual performance;

(ii) that the remuneration packages of employees related to executive directors, CEO (if CEO is not a director) and substantial or controlling shareholders of the Group are in line with the Group's staff remuneration guidelines and commensurate with their respective job scopes and levels of responsibility;

(iii) that the level and structure of remuneration should be aligned with the long-term interests and risk policies of the Company; and

(iv) the Company's obligations arising in the event of termination of the executive directors and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses.

If necessary, the RC may obtain expert advice from external remuneration consultants when required.

In setting the remuneration packages of the Company's directors (including Non-Executive and Independent Directors) and senior executives, The Company conducts a market survey once every two (2) years and makes a comparative study of the compensation packages of executives in comparable industries or companies listed in Singapore and Hong Kong.

The Company has implemented formal and transparent procedures and policies in relation to executive remuneration and for determining the remuneration packages of individual Directors. The RC's recommendations are submitted for endorsement by the entire Board. Each RC member does not participate in discussions, and abstains from decision-making, in relation to any remuneration, compensation, options or any form of benefits to be granted to him. No Director is involved in deciding his/her own remuneration. The RC has established a framework of remuneration packages for the Board and key executives covering all aspects of remuneration including directors' fees, salaries, allowances, bonuses, options, share-based incentives schemes and benefits-in-kind.

The RC also reviews the fairness and reasonableness of the termination clauses of the service agreements of Executive Directors and key management executives to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous, with an aim to be fair and avoid rewarding poor performance.

**Principle 8: Level and Mix of Remuneration**

**The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.**

**Principle 9: Disclosure on Remuneration**

**Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.**

In order to maximise Shareholders' value and promote the long-term success of the Group, the Company seeks to attract, retain and motivate the Management and employees by offering competitive remuneration packages. The remuneration of the Management and employees is set based on inter alia, each individual's scope of responsibilities and prevailing market conditions. The Company rewards the Management and employees based on achievement of individual performance objectives using indicators such as competencies, key result areas, performance ratings and the Group's financial performance. The Board is of the view that performance-based remuneration will motivate the Management and employees to achieve superior performance and promote the long-term growth of the Group.

The remuneration paid to the Directors and key executive officers for services rendered during the year ended 31 December 2017 are as follows:

### DIRECTOR'S REMUNERATION

| Name of Directors (Remuneration in SG$) | Salary | Benefits-in-kind | Directors' Fees | Performance bonus | Share options |
|---|---|---|---|---|---|
| URANO Koichi (SG$515,500) | 88% | 12% | – | – | – |
| KIYOTA Akihiro (Note 1) (SG$367,900) | 100% | – | – | – | – |
| DY MO Hua Cheung, Philip (SG$327,000) | 100% | – | – | – | – |
| YOSHIKAWA Makoto (Note 2) (SG$221,800) | 100% | – | – | – | – |
| CHONG Pheng (SG$80,000) | – | – | 100% | – | – |
| LAI Shi Hong, Edward (SG$60,000) | – | – | 100% | – | – |
| MITANI Masatoshi (SG$60,000) | – | – | 100% | – | – |

**Remuneration of Key Executives Officers (not being Directors)**

| Remuneration band and Name of Key Executive Officers | Salary | Benefits-in-kind | Directors' Fees | Performance bonus | Share options |
|---|---|---|---|---|---|
| **SG$250,000 to SG$499,999** | | | | | |
| CHAN Kam Wah | 75% | 25% | – | – | – |
| LEE Haeng Jo | 66% | 34% | – | – | – |
| **Below SG$250,000** | | | | | |
| SHINJO Kunihiko | 100% | – | – | – | – |
| OCHI Shinichi | 100% | – | – | – | – |
| MIZUGUCHI Tomokazu (Note 3) | 92% | 8% | – | – | – |
| YOSHIKAWA Makoto (Note 2) | 100% | – | – | – | – |

Notes:

1. The director's remuneration of Mr Kiyota was for the month of January 2017 as he resigned as Executive Director on 1 February 2017.

2. The director's remuneration of Mr Yoshikawa was for the period from 1 February 2017 to 31 December 2017 as he was appointed as Executive Director on 1 February 2017. His remuneration as Key Executive Officer was for the month of January 2017.

3. The director's remuneration of Mr Mizuguchi was for the period from 1 January 2017 to 30 November 2017 as he resigned as Key Executive Officer on 30 November 2017.

The total remuneration paid to the above key management executives for the financial year ended 31 December 2017 was approximately SG$1,182,300.

To keep the level and structure of remuneration aligned with the long-term interest and risk policies of the Company and appropriate to attract, retain and motivate the Directors to provide good stewardship, the remuneration of the Independent Directors and Non-Executive Directors are determined by the RC as proportionate to the level of an Independent Director's or Non-Executive Director's contribution or involvement during a year, taking into account factors such as effort and time spent, and responsibilities of that Independent or Non-Executive Director, up to a maximum fixed sum which will be subject to approval at the AGM.

The Company has entered into service agreements with the CEO and all Executive Directors. The terms of the appointment are for five (5) years each with review every year, unless otherwise terminated by either party giving not less than three (3) months' written notice. Their compensation packages consist of salary, bonus, and performance-related incentives linked to the financial performance of the Group and the individual's performance, which is assessed based on the respective key performance indicators allocated to them.

Under the terms of their service agreements, each of the Executive Directors is entitled to an incentive bonus based on, inter alia, the financial performance of the Group and his/her individual performance for that year. The terms of the Executive Directors' service agreements and their remuneration packages are subject to review by the RC.

Save for compliance with local laws and regulations pertaining to any mandatory termination and retirement benefits in the jurisdiction in which each Director or key management personnel is employed, there are no termination or retirement benefits that are granted to the Directors or key management personnel.

Having reviewed and considered the variable components of the Executive Directors and key management personnel, which are moderate, the RC is of the view that it is currently not necessary to use contractual provisions to allow the Company to reclaim incentive components of remuneration from the Executive Directors and key management executives in exceptional circumstances of misstatement of financial statements, or of misconduct resulting in financial loss to the Company.

There were no employees who are immediate family members of the Directors, the CEO, and whose remuneration exceeded SG$50,000 during the year.

The Company has a share option scheme known as CDW Employees' Share Option Scheme 2013 ("ESOS 2013") which is expiring on 28 April 2018. The Company is seeking Shareholders' approval for the adoption of a new CDW Employee Share Option Scheme 2018 ("ESOS 2018") and CDW Holding Share Performance Scheme 2018 (the "SPS 2018") on 30 April 2018 at the special general meeting to be conducted right after the conclusion of the AGM. The ESOS 2018 and SPS 2018 comply with the relevant rules as set out in Chapter 8 of the SGX-ST Listing Manual. The ESOS 2018 and SPS 2018 will provide eligible participants as defined in the Company's circular dated 13 April 2018 with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. The ESOS 2018 and SPS 2018 are administered by the committee comprising three (3) directors who are members of RC. Details of the ESOS 2018 and SPS 2018 can be found in the Company's circular dated 13 April 2018.

No share options and performance shares have been granted during the financial year ended 31 December 2017.

## ACCOUNTABILITY AND AUDIT

### Principle 10: Accountability

**The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.** Management provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a monthly basis and whenever necessary for the discharge of responsibility to the Company's Shareholders.

The Board is accountable to the Shareholders and is mindful of its obligation to furnish timely information and to ensure full disclosure of material information in compliance with statutory requirements and the Listing Manual of the SGX-ST.

The Board provides the Shareholders with a detailed and balanced explanation and analysis of the Company's performance, position and prospects on a quarterly basis. The results and other relevant information on the Company are disseminated via SGXNET and are also available on the Company's website at www.cdw-holding.com.hk.

**Principle 11: Risk Management and Internal Controls**

**The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard Shareholders' interest and the company's assets, and should determine the nature and extent of the significant risk which the Board is willing to take in achieving its strategic objectives.**

The Board maintains overall responsibility for the governance of risk while the AC has been assigned to oversee the risk management system and system of internal controls put in place by Management within the Group to identify risks and document counter-measures to address risks in the Group's businesses, and to safeguard the Shareholders' interests and the Group's assets. Given that the AC directly reports to the Board and the entire Board oversees the risk management system and system of internal controls put in place by Management, it has not established a separate risk committee in carrying out the responsibility of overseeing the Group's risk management framework and policies.

Management is expected to ensure that appropriate controls are in place to manage risks, and such risks and controls, including financial, operational, compliance and information technology controls are monitored by the Board on a regular basis and reviewed at least annually for adequacy and effectiveness. Major risks and their respective counter-measures are identified and analysed by Management and documented in the Group's risk register and discussed with the Board at each quarter. This risk management framework is intended to provide reasonable but not absolute assurance against material financial misstatements or loss, and to safeguard assets and ensure maintenance of proper accounting records, reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

Management will review and adjust its business and operational activities, if necessary, where it identifies areas of significant business risks as well as taking appropriate measures to control and mitigate these risks. Management, on a continuous basis, reviews all significant control policies and procedures and highlights all significant matters to the Board. Management does not guarantee that business undertakings will not fail. However, by identifying and managing risks that may arise, Management can make more informed decisions and benefit from a better balance between risk and reward. This will help protect and also create shareholder value.

During the year, the AC reviewed the adequacy and effectiveness of the Company's internal controls and risk management procedures put in place by Management, taking into consideration internal control issues highlighted by the internal auditors and external auditors during the year as well as measures taken by Management in response to these control issues. The Board is of the view that the Company's internal controls and risk management processes are sufficient to meet the needs of the Company in its current business environment.

The Board has also received assurances from the CEO and the CFO that for the financial year ended 31 December 2017: (a) the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and (b) the Group's risk management and internal controls systems are adequate and effective.

Based on the internal controls (including financial, operational, compliance, information technology controls and sustainability) established and maintained by the Group, the Board, after taking into consideration the work performed by external and internal auditors, the actions taken by Management, the current risk management framework in place, the on-going review and continuing efforts at enhancing controls and processes, with the concurrence of the AC, is of the opinion that the system of internal control maintained by the Group is adequate and effective to address financial, operational, compliance and information technology risks and meet the needs of the Group in providing reasonable assurance against material financial misstatements or loss and includes the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulations and best practices, and the identification and containment of business risks.

**Principle 12: Audit Committee ("AC")**

**The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.**

The AC comprises all Independent Directors, namely CHONG Pheng, LAI Shi Hong, Edward and MITANI Masatoshi and is chaired by LAI Shi Hong, Edward. Each member of the AC shall abstain from voting on any resolutions in respect of matters in which he is interested.

All members of the AC, including the AC Chairman, have sufficient accounting and/or related financial management expertise or experience, as assessed by the Board in its business judgement and the Board is of the view that the AC members have the relevant expertise to discharge the functions of an AC. The AC will assist the Board with regard to discharging its responsibility to safeguard the Company's assets, maintain adequate accounting records, and develop and maintain effective systems of internal controls with an overall objective to ensure that Management has created and maintained an effective control environment in the Company, and that Management demonstrates and stimulates the necessary aspects of the Group's internal control structure among all personnel.

According to the written terms of reference of the AC, the AC performs the following functions:

a) To review with the external auditors:

   (i) the audit plan, including the nature and scope of the audit before the audit commences;

   (ii) their evaluation of the system of internal accounting controls;

   (iii) their audit report; and

   (iv) their management letter and Management's response.

b) To ensure co-ordination where more than one audit firm is involved.

c) To review the quarterly/half-year and annual financial statements to ensure integrity of the said financial statements before submission to the Board for approval, focusing in particular, on:

   (i) significant financial reporting issues and judgements;

   (ii) changes in accounting policies and practices;

   (iii) major risk areas;

(iv) significant adjustments resulting from the audit;

(v) the going concern statement;

(vi) compliance with accounting standards; and

(vii) compliance with stock exchange and statutory/regulatory requirements.

d) To review any formal announcements relating to the Company's financial performance.

e) To discuss problems and concerns, if any, arising from the quarterly and final audits, in consultation with the internal auditors and in the case of final audits only, in consultation with the external auditors as well, where necessary.

f) To meet with the external auditors and with the internal auditors without the presence of Management, at least annually, to discuss any problems and concerns they may have.

g) To review the assistance given by Management to the external auditors.

h) To review annually the scope and results of the external audit and its cost effectiveness as well as the independence and objectivity of the external auditors.

i) Where the auditors also provide non-audit services to the Company, the AC has to review the nature and extent of such services in order to balance the maintenance of objectivity and value for money, and to ensure that the independence of the auditors would not be affected.

j) To review the internal audit programme and the adequacy and effectiveness of the Company's internal audit function, as well as to ensure co-ordination between the internal and external auditors and Management.

k) To oversee and advise the Board in formulating its risks policies to effectively identify and manage the Company's current (and future) risks in its financial, operational, compliance and information technology systems and all strategic transactions to be undertaken by the Company.

l) To oversee Management in the design and implementation of the overall risk management systems and internal control systems (including financial, operational, compliance and information technology controls).

m) To review the adequacy and effectiveness of the Company's risk management and internal control systems (including financial, operational, compliance and information technology controls) and to report to the Board annually.

n) To review the scope and results of the internal audit procedures including the effectiveness of the internal audit function and ensure that the internal audit function is adequately resourced and has appropriate standing within the company.

o) To review and discuss with the external auditors, any suspected fraud or irregularity, or suspected infringement of any law, rules or regulations, which has or is likely to have a material impact on the Company's operating results or financial position, and Management's response.

p) To investigate any matter within its terms of reference, with full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

q) To review the whistle blowing policy of the Company.

r) To report to the Board its findings from time to time on matters arising and requiring the attention of the Committee.

s) To review interested person transactions ("IPTs") falling within the scope of the Listing Manual.

t) To approve the hiring, removal, evaluation and compensation of the internal audit function.

u) To recommend to the Board the appointment, re-appointment and removal of the external auditors, and approve the remuneration and terms of engagement of the external auditors.

v) To review the audit representation letters before consideration by the Board, giving particular consideration to matters that related to non-standard issues.

w) To undertake such other reviews and projects as may be requested by the Board.

x) To undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

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 infringement of any Singapore and other applicable law, rule or regulation which has or is likely to have material impact on the Company's operating results and/or financial position.

The AC meets four (4) times a year after the end of each quarter and also holds informal meetings and discussions with Management from time to time. The AC has full discretion to invite any Director or executive officer to attend its meetings. The external auditor was also present at the relevant junctures. In its review of the audited financial statements for FY2017, the AC discussed with Management and external auditors the audit work performed and accounting principles applied. The following significant matters impacting the financial statements were discussed with Management and external auditors and were reviewed by the AC:

| Significant matters | How the AC reviewed these matters and what decisions were made |
|---|---|
| Impairment assessment of the investment in the associate | The AC considered the approach and methodology applied to the impairment assessment of investment in the associate. It reviewed the reasonableness of value in use calculation based on the discounted cash flow method, the forecasted growth rate and discount rate.<br><br>The impairment assessment of investment in the associate was also an area of focus for the external auditors. The external auditors have included this item as a key audit matter in its audit report for the financial year ended 31 December 2017. Please refer to page 49 of this Annual Report. |

| | |
|---|---|
| Impairment assessment of trade receivables | The AC considered the approach and methodology applied to the impairment assessment of trade receivables when indicators of impairment are identified. It reviewed ageing of the trade receivables, historical collection patterns, existence of any disputes, trading history with customers and other available information concerning the creditworthiness of customers.<br><br>The impairment assessment of trade receivables was also an area of focus for the external auditors. The external auditors have included this item as a key audit matter in its audit report for the financial year ended 31 December 2017. Please refer to page 49 of this Annual Report. |

The AC has been given full access to and is provided with the co-operation of the Company's management. In addition, the AC has independent access to the external auditors. The AC has adequate resources to enable it to discharge its functions properly.

The AC meets with the external and internal auditors without the presence of Management at least once (1) a year. The Company is in compliance with Rule 712 and Rule 715 of the Listing Manual of the SGX-ST whereby the Company appoints a suitable auditing firm to meet its audit obligations in respect of its own accounts and for its subsidiaries.

The AC has reviewed the volume of non-audit services to the Group by the external auditors, and is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The aggregate amount of fees, broken down into audit and non-audit fees paid to auditors for the financial year ended 31 December 2017 can be referred to page 81 of the Annual Report. The AC is pleased to recommend their re-appointment.

The AC has established the whistle blowing policy where staff of the Group and any other persons may, in confidence, raise concerns about possible improprieties or irregularities in matters of financial reporting, fraudulent acts and other matters to the AC Chairman, and ensure that arrangements are in place for independent investigations of such matters and for appropriate follow up actions by the Chairman.

The AC is kept abreast of the changes to accounting standards and issues which may have a direct impact on financial statements through updates provided by the external auditors or briefings from the Company's finance function during AC meetings.

No former partner or director of the Company's current auditing firm is a member of the AC.

**Principle 13: Internal Audit**

**The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.**

The Company has set up an in-house internal audit team, which is staffed with persons with relevant experience to carry out the internal audit functions for the Group. The internal auditors report primarily to the Chairman of the AC and report administratively to the CEO. Taking into account inputs from the executive directors, the AC approves the hiring, removal, evaluation and compensation of the head of the internal audit function.

The focus of the internal audit function is to strengthen the internal control structure and risk management of the Group through the conduct of independent and objective reviews. The internal audit function has unfettered access to all the company's documents, records, properties and personnel, including access to the AC.

The internal audit team adopts the principles and methodologies of the Institute of Internal Auditors, USA, and is provided with training where appropriate. The internal audit team carries out the internal audit functions by company in accordance with approved internal audit plan which normally has duration of two (2) to three (3) years. Each company of the Group will be covered and subject to internal audit review and testing at least once (1) during the cycle of the internal audit plan. The AC reviews the internal audit team's scope of work on an annual basis, and the internal audit team's quarterly internal audit reports with monthly progress reports submitted to the AC, as well as the adequacy and effectiveness of the internal audit function annually.

The Company's internal auditors conduct tests of the Company's internal controls, including financial, operational and compliance controls systems maintained by Management (collectively, "internal controls"). The internal audit plan for each year is developed taking into consideration the risks of each processes. Any material noncompliance or failures in internal control, and recommendations for improvements, are reported to the AC.

In 2011, the Company engaged an external qualified professional, Protiviti Hong Kong Co., Limited ("Protiviti") under the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, to perform an external quality assessment of its internal audit function at least once (1) every five (5) years and to make recommendations in formulating the risk-based internal audit approach and strategy to cover all high risk areas. In this regard, the AC had recommended to the Board and Management to adopt and implement its recommendations. Consequently, the internal audit team worked with Management to implement the recommendations to the satisfaction of AC. Based on the aforementioned review of the internal audit function, subsequent follow up on recommendations and review of the internal audit scope of work and reports, the AC is satisfied that the internal audit function is adequately resourced and has appropriate standing within the Group. As the Group's internal audit function's existing methodologies are based on Protiviti's approach, to ensure continued consistency and effectiveness of the Group's current processes and procedures, the Company re-engaged Protiviti in 2016 to perform such external quality assessment. Based on their assessment and recommendations, the Company charted out an enhanced internal audit plan from then onwards.

In addition, the Group's external auditors highlight internal control issues that come to their notice during the conduct of their normal audit procedures which are designed primarily for the purpose of expressing their opinion on the financial statements and these issues and their recommendations are reported to the AC.

## SHAREHOLDER RIGHTS AND RESPONSIBILITIES

### Principle 14: Shareholder Rights

**Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.**

All Shareholders are treated fairly and equitably to facilitate their ownership rights. The Board is mindful of the obligation to provide timely and fair disclosure of all material developments that impact the Group in accordance with the Corporate Disclosure Policy of the SGX-ST.

The Company's bye-laws allows (i) each Shareholder to vote in person or, appoint not more than two (2) proxies and (ii) the Depository to appoint more than two (2) proxies to attend and vote at general meetings.

# CORPORATE GOVERNANCE REPORT

**Principle 15: Communication with Shareholders**

**Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.**

The Company disseminates its latest corporate news, strategies and announcements promptly through SGXNET, press releases, various media as well as through its investor relations consultant's network. The Company ensures that price-sensitive information is publicly released on a timely basis. All Shareholders of the Company will receive the Annual Report and the notice of the general meetings. The notice is also advertised in a local newspaper and made available on SGXNET. The Company does not practise selective disclosure.

While general meetings of the Company is the principal forum where shareholders may dialogue with the Directors and Management of the Company, Management may when appropriate, conduct media interviews to give shareholders and the public deeper insights of the Group's business and strategies. The Company also maintains and updates its corporate website with relevant corporate developments.

**Principle 16: Conduct of Shareholder Meetings**

**Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.**

**Shareholders are informed of general meetings through the announcements released to the SGXNet and notices contained in the Annual Report or circulars sent to all shareholders. All shareholders are entitled to attend the general meetings and are provided the opportunity to participate in the general meetings. If any shareholder is unable to attend, he/she is allowed to appoint not more than two (2) proxies to vote on his/her behalf at the general meeting through proxy forms sent in advance.**

The Company encourages shareholders' participation at general meetings and all shareholders are given the opportunity to voice their views and to direct queries regarding the Group to the Board which includes the chairpersons of each of the Board Committees who are available to address questions at the AGM. The external auditors will also be present to assist the Directors in addressing any relevant questions from the shareholders regarding the conduct of the audit and the preparation and content of the auditor's report.

In general meetings, the Company ensures that there are separate resolutions at general meetings on each distinct issue; and the Company puts all resolutions to vote by poll and makes an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages to the shareholders before the close of the meetings.

Company is not implementing absentia voting methods such as by mail, e-mail, or fax until security integrity and other pertinent issues are satisfactorily resolved.

The Company does not have a formal or fixed dividend policy at present. The form, frequency and amount of dividends declared each year will take into consideration the Group's performance in the relevant financial period, cash position, projected capital requirements, working capital requirements and others factors as the Board may deem appropriate. As mentioned by the Chairman in his message, the Company intends to declare and distribute dividends of 0.7 US cent per ordinary share as final dividend for the financial year ended 31 December 2017, making the total annual dividends as 1.2 US cents per ordinary share.

## MATERIAL CONTRACTS

Save for the service agreements between the Executive Directors and the Company, and the advisory agreement between the retired CEO and the Company (as disclosed under "Interested Person Transactions"), there are no material contracts of the Company or its subsidiaries involving the interest of the CEO or any Directors or controlling shareholders subsisting at the end of the year ended 31 December 2017 or entered into since the end of that financial year.

## DEALING IN SECURITIES

The Company has adopted a Best Practices Guide with respect to dealings in securities by Directors and officers of the Group. Directors, Management and officers of the Group who have access to price-sensitive, financial or confidential information are not permitted to deal in the Company's shares during the periods commencing at least two (2) weeks before the announcement of each of the Group's first three (3) quarters' results and one (1) month before the full year results until the day of the release of the announcement or while in possession of unpublished price-sensitive information on the Group. The Company has also reminded its Directors and officers not to deal in the Company's securities on short-term consideration.

The Company has complied with its Best Practices Guide on Securities Transactions which is in accordance with Rule 1207(19) of the SGX-ST Listing Manual.

## INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the AC and that the transactions are on an arm's length basis.

The interested person transactions entered into during the year under review is as follows:

| | **Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than SG$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)** | **Aggregate value of all interested person transactions conducted during the financial year under review under shareholders' mandate pursuant to Rule 920 (excluding transactions less than SG$100,000)** |
|---|---|---|
| **Name of interested person** | **US$'000** | **US$'000** |
| Mr YOSHIMI Kunikazu<br>- Advisory fee | 262 | – |
| Total | 262 | – |

# DIRECTORS' STATEMENT

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of CDW Holding Limited (the "Company") and its subsidiaries (collectively, the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2017.

## 1. Opinion of the directors

In the opinion of the directors,

(i) the consolidated financial statements of the Group and the statement of financial position 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 2017 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

(ii) 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.

## 2. Directors

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

| | |
|---|---|
| URANO Koichi | (Chairman and Chief Executive Officer) |
| YOSHIKAWA Makoto | (Executive Director and Chief Operating Officer) |
| DY MO Hua Cheung, Philip | (Executive Director and Chief Financial Officer) |
| CHONG Pheng | (Lead Independent Director) |
| LAI Shi Hong, Edward | (Independent Director) |
| MITANI Masatoshi | (Independent Director) |

In accordance with Bye-Law 104 of the bye-laws of the Company, Urano Koichi and Mitani Masatoshi retire, and Mitani Masatoshi, being eligible, offers himself for re-election while Urano Koichi does not wish to seek re-election.

## 3. Arrangements to Enable Directors to Acquire Shares and Debentures

Except as described in paragraphs 4, 6 and 7 below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

## 4. Directors' Interests in Shares and Debentures

The following directors, who held office at the end of the financial year, had an interest in shares and debentures of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

| Name of directors and companies in which interests are held | Direct interests: At the beginning of financial year | Direct interests: At the end of financial year | Deemed interests: At the beginning of financial year | Deemed interests: At the end of financial year |
|---|---|---|---|---|
| **The Company** | | | | |
| Ordinary shares of US$0.04 each (2016: US$0.04 each) | | | | |
| URANO Koichi | 1,331,000 | 1,331,000 | – | – |
| DY MO Hua Cheung, Philip | 1,176,000 | 1,176,000 | – | – |
| LAI Shi Hong, Edward | 300,000 | 300,000 | – | – |
| YOSHIKAWA Makoto | 500,000 | 500,000 | – | – |

| | Options to subscribe for ordinary shares: At the beginning of financial year | Options to subscribe for ordinary shares: At the end of financial year |
|---|---|---|
| **The Company** | | |
| URANO Koichi | 1,000,000 | 1,000,000 |
| DY MO Hua Cheung, Philip | 500,000 | 500,000 |
| CHONG Pheng | 250,000 | 250,000 |
| LAI Shi Hong, Edward | 250,000 | 250,000 |
| MITANI Masatoshi | 250,000 | 250,000 |

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2018.

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 of the financial year, or date of appointment if later, or at the end of the financial year.

## 5. Directors' Contractual Benefits

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

## 6. Share Options

*Options to take up unissued shares*

The Company adopted the CDW Employees' Share Option Scheme 2013 (the "2013 Scheme") which was approved by the shareholders of the Company pursuant to the resolutions passed on 29 April 2013. The 2013 Scheme provides an opportunity for the Group's employees and directors to participate in the equity of the Company.

The rules of the 2013 Scheme are set out in the Company's Circular dated 12 April 2013 and summarised in note 25(b) to the financial statements. Qualified persons who are also the Company's controlling shareholders or their associates may not participate in the 2013 Scheme. The options grant the right to the holder to subscribe for new ordinary shares of the Company at a discount to the market price of the share, subject to a maximum limit of 20%, or at a price equal to the average of the closing prices of the shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") on the five days immediately preceding the date of the grant of the option.

The committee administering the 2013 Scheme comprises three directors, who are the members of the Remuneration Committee ("RC"), CHONG Pheng, LAI Shi Hong, Edward and MITANI Masatoshi.

*Unissued shares under options exercised*

The number of shares available under the 2013 Scheme and the Performance Scheme (as defined below) shall not exceed 15% of the issued share capital of the Company. Share options granted during the financial year and the number of outstanding share options under the 2013 Scheme are as follows:

| Date of grant | Balance at 1 January 2017 | Cancelled/ Lapsed | Granted | Exercised | Balance at 31 December 2017 | Exercise price per share | Exercisable period |
|---|---|---|---|---|---|---|---|
| 30 May 2014 | 8,500,000 | (1,750,000) | – | – | 6,750,000 | SG$0.216 | 30 May 2016 to 29 May 2019 |

In respect of share options granted to employee of the Group, no option were exercised (2016: 500,000), 1,750,000 (2016: 1,000,000) were lapsed and no new options were granted (2016: Nil) during the year ended 31 December 2017.

## 6. Share Options (continued)

*Unissued shares under options exercised* (continued)

Holders of the above share options have no right to participate in any share issue of any other company. No employee of the Group has received 5% or more of the total options available under the 2013 Scheme.

There are no options granted to any of the Company's controlling shareholders or their associates (as defined in the Singapore Exchange Securities Trading Listing Manual).

Details of the options to subscribe for ordinary shares of the Company granted to directors of the Company pursuant to the 2013 Scheme are as follows:

| Name of directors | Options granted during the financial year | Aggregate options granted since commencement of the Scheme to the end of financial year | Aggregate options exercised since commencement of the Scheme to the end of financial year | Aggregate options cancelled/ lapsed since commencement of the Scheme to the end of financial year | Share consolidation (2:1) (Note 1) | Aggregate options outstanding as at the end of financial year |
|---|---|---|---|---|---|---|
| URANO Koichi | – | 2,000,000 | – | – | (1,000,000) | 1,000,000 |
| DY MO Hua Cheung, Philip | – | 1,000,000 | – | – | (500,000) | 500,000 |
| CHONG Pheng | – | 500,000 | – | – | (250,000) | 250,000 |
| LAI Shi Hong, Edward | – | 500,000 | – | – | (250,000) | 250,000 |
| MITANI Masatoshi | – | 500,000 | – | – | (250,000) | 250,000 |
| YOSHIKAWA Makoto (Note 2) | – | 500,000 | (500,000) | – | – | – |

Note:

1. On 26 August 2016, the Company consolidated every two (2) existing ordinary shares of par value of US$0.02 each in the authorised and issued capital of the Company into one (1) consolidated share of par value of US$0.04 each in the authorised and issued capital of the Company.

2. Option granted prior to Mr. YOSHIKAWA Makato's appointment as a Director of the Company on 1 February 2017.

## 7. Share Performance

The Company adopted the Share Performance Scheme (the "Performance Scheme") which was approved by the shareholders of the Company pursuant to the resolutions passed on 29 April 2013. The rules of the Performance Scheme are set out in the Company's Circular dated 12 April 2013 and are summarised in note 25(c) to the financial statements. The number of shares available under the Performance Scheme and the 2013 Scheme (as defined above) shall not exceed 15% of the issued share capital of the Company.

## 7. Share Performance (continued)

The Performance Scheme is a performance incentive scheme which form an integral part of the Group's incentive compensation programme. Under this scheme, the Company is allowed to grant the Group's employees and directors (the "Participants") the right to receive fully paid shares of the Company free of charge upon achieving pre-determined key financial and operational targets (the "Award"). The Performance Scheme provides an opportunity for the Participants to participate in the equity of the Company, seeks to motivate the Participants to achieve key financial and operational goal and provides competitive remuneration to reward and retain existing Participants and to recruit new Participants for the long-term growth and profitability of the Group.

The committee administering the Performance Scheme comprises three directors, who are the members of the RC, CHONG Pheng, LAI Shi Hong, Edward and MITANI Masatoshi.

During the year ended 31 December 2017, no Award was granted and no share was issued under the Performance Scheme.

## 8. Audit Committee ("AC")

The AC of the Company is chaired by LAI Shi Hong, Edward, an independent director, and includes CHONG Pheng and MITANI Masatoshi, all of whom are independent directors. The AC has met four times since the last Annual General Meeting ("AGM") up to the date of this statement and has reviewed the following, where relevant, with the executive directors and external and internal auditors of the Company:

a) the audit plans and results of an independent firm's examination and evaluation of the Group's systems of internal accounting controls;

b) the Group's financial and operating results and accounting policies;

c) the consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company before their submission to the directors of the Company and the external auditor's report on those financial statements;

d) the quarterly and annual announcements as well as the related press releases on the results and the financial position of the Group and the financial position of the Company;

e) the co-operation and assistance given by the management to the Group's external and internal auditors; and

f) the re-appointment of the external auditor of the Group.

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

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

The AC has recommended to the directors the nomination of Ernst & Young for re-appointment as external auditor of the Group at the forthcoming AGM of the Company.

## 9. Auditor

Ernst & Young have expressed their willingness to accept reappointment as auditor.

On behalf of the Board of Directors

| | |
|---|---|
| URANO Koichi<br>Chairman and Chief Executive Officer | DY MO Hua Cheung, Philip<br>Executive Director and Chief Financial Officer |

29 March 2018

# INDEPENDENT AUDITOR'S REPORT

To the Members of CDW Holding Limited (Incorporated in Bermuda with limited liability)

**Opinion**

We have audited the consolidated financial statements of CDW Holding Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, the statements of changes in equity of the Group and the Company and the consolidated statement of profit or loss, the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the statement of financial position and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Bermuda Companies Act 1981 ("the Act") and International Financial Reporting Standards ("IFRSs") 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 2017 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 International Standards on Auditing ("ISAs"). 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 *Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants*, issued by the International Federation of Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the 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 the 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.

### Key Audit Matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Impairment assessment of the investment in the associate | |
| The Group holds a 25% equity interest in Suzhou Pengfu Photoelectric Technology Co., Limited ("Suzhou Pengfu"), which is accounted for as an associate. The net carrying amount was US$446,000 at 31 December 2017. The Group is required to assess the investment in the associate for impairment, if there is objective evidence of impairment.<br><br>An impairment assessment of Suzhou Pengfu was performed by management at the year end date using a value in use calculation based on the discounted cash flow method. The impairment assessment is complex and includes significant judgements and assumptions applied by management, that are affected by expected future market or economic conditions.<br><br>Related disclosures are included in notes 3 and 14 to the financial statements. | Our audit procedures included, among others, involving our valuation specialists to assist us in evaluating the methodologies and assumptions used by management in the cash flow projections, in particular those relating to the forecasted growth rate and discount rate. We also compared the projections prepared by management with the historical performance and the business plans incorporated in the projections. |
| Impairment assessment of trade receivables | |
| The carrying amount of the Group's trade receivables was US$24 million at 31 December 2017. Significant judgements and estimates are applied by management in assessing whether the trade receivables are recoverable and if a provision for impairment is required. Management considers various factors, including the ageing of the trade receivables, historical collection patterns, existence of any disputes, trading history with customers and other available information concerning the creditworthiness of customers.<br><br>Related disclosures are included in notes 3 and 18 to the financial statements. | Our audit procedures included, among others, evaluating management's methodology and the inputs and assumptions applied by management in performing the impairment assessment. We tested the ageing of the trade receivables and, for a sample of customer balances evaluated the historical collection patterns and post year-end settlements received. |

### 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.

**Other Information (continued)**

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, 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.

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

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

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

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

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

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

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

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.

The engagement partner on the audit resulting in this independent auditor's report is Kwong Ka Yan.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

29 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*Year ended 31 December 2017*

| | Notes | Group 2017 US$'000 | Group 2016 US$'000 |
|---|---|---|---|
| **Revenue** | 4 | 104,090 | 103,221 |
| **Cost of sales** | | (76,984) | (78,499) |
| **Gross profit** | | 27,106 | 24,722 |
| Other income | 5 | 948 | 984 |
| Distribution costs | | (2,144) | (1,575) |
| Administrative expenses | 6 | (20,204) | (20,283) |
| Finance costs | 7 | (142) | (89) |
| Share of loss of the associate | | (88) | (278) |
| Impairment loss of investment in the associate | 14 | (931) | (360) |
| Impairment loss of available-for-sale investments | 15(b) | – | (83) |
| **Profit before tax** | 8 | 4,545 | 3,038 |
| Income tax expense | 9 | (2,822) | (2,635) |
| **Profit for the year** | | 1,723 | 403 |
| **Profit attributable to:** | | | |
| Owners of the Company | | 1,723 | 403 |
| Non-controlling interests | | – | – |
| | | 1,723 | 403 |
| **Earnings per share (US cent)** | | | |
| Basic | 10 | 0.75 | 0.17 |
| Diluted | 10 | 0.75 | 0.17 |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2017*

| | Note | Group 2017 US$'000 | Group 2016 US$'000 |
|---|---|---|---|
| **Profit for the year** | | 1,723 | 403 |
| **Other comprehensive income/(expense):** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of foreign operations | | 1,599 | (1,387) |
| Available-for-sale investments: | | | |
| Fair value gain arising during the year | 15(a) | 53 | 63 |
| Deferred tax liability arising on revaluation of available-for-sale investments | | (21) | (22) |
| **Other comprehensive income/(expense) for the year, net of tax** | | 1,631 | (1,346) |
| **Total comprehensive income/(expense) for the year** | | 3,354 | (943) |
| **Attributable to:** | | | |
| Owners of the Company | | 3,354 | (943) |
| Non-controlling interests | | – | – |
| **Total comprehensive income/(expense) for the year** | | 3,354 | (943) |

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

# STATEMENTS OF FINANCIAL POSITION

*As at 31 December 2017*

| | Notes | Group 2017 US$'000 | Group 2016 US$'000 | Company 2017 US$'000 | Company 2016 US$'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | 6,656 | 7,088 | – | – |
| Prepayment for the acquisition of intangible asset | 12 | 962 | 970 | – | – |
| Investments in subsidiaries | 13(a) | – | – | 11,334 | 11,334 |
| Amount due from a subsidiary | 13(b) | – | – | 16,693 | 16,653 |
| Investment in the associate | 14 | 446 | 1,413 | – | – |
| Investments | 15 | 984 | 926 | – | – |
| Other assets | 16 | 420 | 523 | – | – |
| Deferred tax assets | 26 | 136 | – | – | – |
| Total non-current assets | | 9,604 | 10,920 | 28,027 | 27,987 |
| **Current assets** | | | | | |
| Inventories | 17 | 6,863 | 6,231 | – | – |
| Trade and other receivables | 18 | 27,134 | 19,733 | 80 | 97 |
| Investments | 15 | 1,023 | 1,432 | – | – |
| Derivative financial instruments | 19 | – | 38 | – | – |
| Pledged bank deposit | 20 | 147 | 146 | – | – |
| Cash and bank balances | 20 | 43,772 | 45,026 | 128 | 272 |
| Total current assets | | 78,939 | 72,606 | 208 | 369 |
| **TOTAL ASSETS** | | 88,543 | 83,526 | 28,235 | 28,356 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Income tax payable | | 1,342 | 1,047 | – | – |
| Bank borrowings | 22 | 8,004 | 5,298 | – | – |
| Finance leases | 23 | 45 | 65 | – | – |
| Trade and other payables | 24 | 15,948 | 15,548 | 140 | 282 |
| Derivative financial instruments | 19 | 6 | – | – | – |
| Total current liabilities | | 25,345 | 21,958 | 140 | 282 |
| **NET CURRENT ASSETS** | | 53,594 | 50,648 | 68 | 87 |
| **Non-current liabilities** | | | | | |
| Bank borrowings | 22 | 1,648 | 716 | – | – |
| Finance leases | 23 | 52 | 16 | – | – |
| Retirement benefit obligations | 25(a) | 244 | 347 | – | – |
| Deferred tax liabilities | 26 | 337 | 177 | – | – |
| Total non-current liabilities | | 2,281 | 1,256 | – | – |
| **TOTAL LIABILITIES** | | 27,626 | 23,214 | 140 | 282 |
| **NET ASSETS** | | 60,917 | 60,312 | 28,095 | 28,074 |

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

# STATEMENTS OF FINANCIAL POSITION

*As at 31 December 2017*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2017<br>US$'000 | 2016<br>US$'000 | 2017<br>US$'000 | 2016<br>US$'000 |
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | 27(a) | 10,087 | 10,087 | 10,087 | 10,087 |
| Treasury shares | 27(b) | (3,431) | (2,980) | (3,431) | (2,980) |
| Retained earnings | | 29,695 | 30,146 | 2,157 | 1,558 |
| Reserves | 28 | 24,557 | 23,050 | 19,282 | 19,409 |
| | | 60,908 | 60,303 | 28,095 | 28,074 |
| **Non-controlling interests** | | 9 | 9 | – | – |
| **TOTAL EQUITY** | | 60,917 | 60,312 | 28,095 | 28,074 |
| **TOTAL LIABILITIES AND EQUITY** | | 88,543 | 83,526 | 28,235 | 28,356 |

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

# STATEMENTS OF CHANGES IN EQUITY

*Year ended 31 December 2017*

| | Share capital | Share premium of the Company | Share capital reserve | Treasury shares | Employee share option reserve |
|---|---|---|---|---|---|
| | | | | Note 27(b) | Note 25(b) |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **GROUP** | | | | | |
| Balance at 1 January 2016 | 10,087 | 18,994 | (202) | (2,061) | 541 |
| Profit for the year | – | – | – | – | – |
| Other comprehensive income/(expense) for the year: | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – |
| Change in fair value of available-for-sale investments, net of tax | – | – | – | – | – |
| Total comprehensive income/(expense) for the year | – | – | – | – | – |
| Share-based payment expense (Note 25(b)) | – | – | – | – | 101 |
| Treasury shares transferred out to satisfy share options exercised | – | – | 9 | 70 | – |
| Transfer on share options exercised | – | – | – | – | (34) |
| Shares purchased under Shares Purchase Mandate and held in treasury shares | – | – | – | (989) | – |
| Transfer | – | – | – | – | – |
| Dividends paid (Note 35) | – | – | – | – | – |
| Balance at 31 December 2016 and 1 January 2017 | 10,087 | 18,994 | (193) | (2,980) | 608 |
| Profit for the year | – | – | – | – | – |
| Other comprehensive income for the year: | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – |
| Change in fair value of available-for-sale investments, net of tax | – | – | – | – | – |
| Total comprehensive income for the year | – | – | – | – | – |
| Transfer on share options lapsed | – | – | – | – | (127) |
| Shares purchased under Shares Purchase Mandate and held in treasury shares | – | – | – | (451) | – |
| Transfer | – | – | – | – | – |
| Dividends paid (Note 35) | – | – | – | – | – |
| Balance at 31 December 2017 | 10,087 | 18,994 | (193) | (3,431) | 481 |

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

# STATEMENTS OF CHANGES IN EQUITY

*Year ended 31 December 2017*

| Merger reserve Note 28 US$'000 | Statutory Reserve Fund Note 28 US$'000 | Enterprise Expansion Fund Note 28 US$'000 | Other reserves Note 28 US$'000 | Fair value adjustment reserve Note 28 US$'000 | Foreign currency translation reserve Note 28 US$'000 | Retained earnings US$'000 | Equity attributable to the owners of the Company US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
|---|---|---|---|---|---|---|---|---|---|
| (7,020) | 6,001 | 329 | 1,193 | (4) | 4,470 | 33,526 | 65,854 | 9 | 65,863 |
| – | – | – | – | – | – | 403 | 403 | – | 403 |
| – | – | – | – | – | (1,387) | – | (1,387) | – | (1,387) |
| – | – | – | – | 41 | – | – | 41 | – | 41 |
| – | – | – | – | 41 | (1,387) | 403 | (943) | – | (943) |
| – | – | – | – | – | – | – | 101 | – | 101 |
| – | – | – | – | – | – | – | 79 | – | 79 |
| – | – | – | – | – | – | 34 | – | – | – |
| – | – | – | – | – | – | – | (989) | – | (989) |
| – | 14 | 1 | 3 | – | – | (18) | – | – | – |
| – | – | – | – | – | – | (3,799) | (3,799) | – | (3,799) |
| ( 7,020) | 6,015 | 330 | 1,196 | 37 | 3,083 | 30,146 | 60,303 | 9 | 60,312 |
| – | – | – | – | – | – | 1,723 | 1,723 | – | 1,723 |
| – | – | – | – | – | 1,599 | – | 1,599 | – | 1,599 |
| – | – | – | – | 32 | – | – | 32 | – | 32 |
| – | – | – | – | 32 | 1,599 | 1,723 | 3,354 | – | 3,354 |
| – | – | – | – | – | – | 127 | – | – | – |
| – | – | – | – | – | – | – | (451) | – | (451) |
| – | – | – | 3 | – | – | (3) | – | – | – |
| – | – | – | – | – | – | (2,298) | (2,298) | – | (2,298) |
| (7,020) | 6,015 | 330 | 1,199 | 69 | 4,682 | 29,695 | 60,908 | 9 | 60,917 |

# STATEMENTS OF CHANGES IN EQUITY

*Year ended 31 December 2017*

| | Share capital | Share premium | Share capital reserve | Treasury shares | Employee share option reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | | | | Note 27(b) | Note 25(b) | | |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **COMPANY** | | | | | | | |
| Balance at 1 January 2016 | 10,087 | 18,994 | (202) | (2,061) | 541 | 919 | 28,278 |
| Profit for the year and total comprehensive income for the year | – | – | – | – | – | 4,404 | 4,404 |
| Share-based payment expense (Note 25(b)) | – | – | – | – | 101 | – | 101 |
| Treasury shares transferred out to satisfy share options exercised | – | – | 9 | 70 | – | – | 79 |
| Transfer on share options exercised | – | – | – | – | (34) | 34 | – |
| Shares purchased under Shares Purchase Mandate and held in treasury shares | – | – | – | (989) | – | – | (989) |
| Dividends paid (Note 35) | – | – | – | – | – | (3,799) | (3,799) |
| Balance at 31 December 2016 and 1 January 2017 | 10,087 | 18,994 | (193) | (2,980) | 608 | 1,558 | 28,074 |
| Profit for the year and total comprehensive income for the year | – | – | – | – | – | 2,770 | 2,770 |
| Transfer on share options lapsed | – | – | – | – | (127) | 127 | – |
| Shares purchased under Shares Purchase Mandate and held in treasury shares | – | – | – | (451) | – | – | (451) |
| Dividends paid (Note 35) | – | – | – | – | – | (2,298) | (2,298) |
| Balance at 31 December 2017 | 10,087 | 18,994 | (193) | (3,431) | 481 | 2,157 | 28,095 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

*Year ended 31 December 2017*

| | Notes | Group 2017 US$'000 | Group 2016 US$'000 |
|---|---|---|---|
| **Operating Activities** | | | |
| Profit before tax | | 4,545 | 3,038 |
| Adjustments for: | | | |
| Interest income | 5 | (747) | (758) |
| Finance costs | 7 | 142 | 89 |
| Net loss from disposal of property, plant and equipment | 8 | 288 | 23 |
| Decrease in provision for inventories | 8 | (455) | (517) |
| Changes in fair value of derivative financial instruments | 8 | 44 | (40) |
| Changes in fair value of held-for-trading investments | 8 | 200 | 82 |
| Depreciation of property, plant and equipment | 11 | 1,324 | 1,790 |
| Share of loss of the associate | 14 | 88 | 278 |
| Retirement benefit obligations | 25(a) | 91 | 57 |
| Impairment loss of investment in the associate | 14 | 931 | 360 |
| Impairment loss of available-for-sale investments | 15(b) | – | 83 |
| Loss on redemption of held-to-maturity investment | | – | 206 |
| Share-based payment expense | 25(b) | – | 101 |
| Operating cash flows before movements in working capital | | 6,451 | 4,792 |
| Changes in working capital: | | | |
| Trade and other receivables | | (7,401) | (2,448) |
| Inventories | | (177) | 1,575 |
| Trade and other payables | | 400 | (1,229) |
| Cash generated from/(used in) operations | | (727) | 2,690 |
| Net income tax paid | | (2,458) | (1,873) |
| Retirement benefit obligations paid | | (194) | (137) |
| Interest paid | | (142) | (89) |
| Net cash from/(used in) operating activities | | (3,521) | 591 |
| **Investing Activities** | | | |
| Proceeds from disposal of property, plant and equipment | | 205 | 6 |
| Purchase of property, plant and equipment * | | (961) | (832) |
| Decrease in other assets | | 103 | 56 |
| Decrease in loans and receivables | | 208 | – |
| Additional investment in available-for-sale investments | | (11) | (909) |
| Interest income received | | 747 | 758 |
| Purchase of held-for-trading investments | | – | (36) |
| Prepayment for the acquisition of intangible asset | | – | (969) |
| Proceeds from redemption of held-to-maturity investment | | – | 776 |
| Net cash from/(used in) investing activities | | 291 | (1,150) |
| **Financing Activities** | | | |
| Proceeds from share options exercised | | – | 79 |
| Payment for share buyback | | (451) | (989) |
| Proceeds from bank borrowings | | 104,995 | 42,645 |
| Repayment of bank borrowings | | (101,410) | (41,503) |
| Repayment of obligations under finance leases | | (91) | (117) |
| Dividends paid | | (2,298) | (3,799) |
| Net cash from/(used in) financing activities | | 745 | (3,684) |
| Net decrease in cash and cash equivalents | | (2,485) | (4,243) |
| Net effect of currency translation differences | | 1,231 | (1,114) |
| Cash and cash equivalents at 1 January | | 45,026 | 50,383 |
| **Cash and cash equivalents at 31 December** | 20 | 43,772 | 45,026 |

* During the year ended 31 December 2017, the Group acquired property, plant and equipment with an aggregate cost of approximately US$1,068,000 (2016: US$832,000), of which US$107,000 was acquired by means of finance lease (2016: Nil). Cash payment of US$961,000 (2016: US$832,000) was made to purchase property, plant and equipment.

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

# NOTES TO FINANCIAL STATEMENTS

*Year ended 31 December 2017*

## 1. CORPORATE INFORMATION

The Company (Registration number 35127) is a limited company incorporated in Bermuda and is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST").

The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and the principal place of business of the Company is located at Room 06 - 10, 11th Floor, CCT Telecom Building, 11 Wo Shing Street, Fo Tan, Shatin, New Territories, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are disclosed in note 13 to the financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF PREPARATION** - The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

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 United States Dollars ("US$") and all values in the tables are rounded to the nearest thousand (US$'000), except when otherwise indicated.

**CHANGES IN ACCOUNTING POLICIES** - The Group has adopted the following revised standards for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to IAS 7 | *Disclosure Initiative* |
| Amendments to IAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle* | *Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12* |

None of the above amendments to standards has had a significant financial effect on these financial statements. Disclosure has been made in note 36 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**STANDARDS ISSUED BUT NOT YET EFFECTIVE** - The Group has not adopted the following new and revised standards that have been issued but are not yet effective, in these financial statements:

| | |
|---|---|
| Amendments to IFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to IFRS 4 | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1] |
| IFRS 9 | *Financial Instruments*[1] |
| Amendments to IFRS 9 | *Prepayment Features with Negative Compensation*[2] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| IFRS 15 | *Revenue from Contracts with Customers*[1] |
| Amendments to IFRS 15 | *Clarifications to IFRS 15 Revenue from Contracts with Customers*[1] |
| IFRS 16 | *Leases*[2] |
| IFRS 17 | *Insurance Contracts*[3] |
| Amendments to IAS 19 | *Plan Amendment, Curtailment or Settlement*[2] |
| Amendments to IAS 28 | *Long-term Interests in Associates and Joint Ventures*[2] |
| Amendments to IAS 40 | *Transfers of Investment Property*[1] |
| IFRIC 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| IFRIC 23 | *Uncertainty over Income Tax Treatments*[2] |
| *Annual Improvements 2014-2016 Cycle* | *Amendments to IFRS 1 and IAS 28*[1] |
| *Annual Improvements 2015-2017 Cycle* | *Amendments to IFRS 3, IFRS 11, IAS 12, IAS 23*[2] |

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after 1 January 2021

4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below. Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have an impact upon adoption. Whilst management has performed an assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

In July 2014, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed an assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Currently, most of the Group's financial assets, including loans and receivables are classified and measured at amortised cost, and the Group does not expect the adoption of IFRS 9 to have a material impact on the classification and measurement of its financial assets. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) IFRS 9 requires an entity to recalculate the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. Any adjustments to the amortised cost of the financial liability would be recognised in profit or loss at the date of the modification or exchange. The classification of financial liabilities is essentially unchanged.

(c) IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. Based on a preliminary assessment, if the Group were to adopt the new impairment requirement at 31 December 2017, accumulated impairment loss at that date would not be significantly different as compared with that recognised under IAS 39. As a consequence, no adjustment is expected to be made to the opening balances of net assets and retained earnings at 1 January 2018.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt IFRS 15 from 1 January 2018 and plans to adopt the modified retrospective approach. The Group has assessed the impact of this standard and expects that the standard will not have any significant impact, when applied, on the consolidated financial statements of the Group.

Other than the above, the Group is also in the process of making an assessment of the impact of the other new and revised IFRSs upon initial application but is not yet in a position to state whether these new and revised IFRSs would have a significant impact on the Group's financial performance and financial position.

**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 and dividends are eliminated in full.

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

The cash-generating units to which goodwill has been allocated are 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.

**TRANSACTIONS WITH NON-CONTROLLING INTERESTS** - Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

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

**FOREIGN CURRENCY** - The Group's consolidated financial statements are presented in US$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Transactions and balances**

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating to 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.

**Consolidated financial statements**

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

**PROPERTY, PLANT AND EQUIPMENT** - All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets less estimated residual values over their estimated useful lives, using the straight-line method, on the following bases:

| | Depreciation rate | Residual value |
|---|---|---|
| Buildings | 5% | 10% |
| Plant and machinery | 10% to 20% | Nil to 10% |
| Furniture, fixtures and equipment | 12.5% to 33% | Nil to 10% |
| Leasehold improvements | 12.5% to 33% | Nil |
| Motor vehicles | 20% to 25% | Nil |

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 lives and the 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 on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

**Research and development costs**

Research costs are expensed as incurred. Deferred development costs arising from development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditures during the development.

Following initial recognition of the deferred development costs as an intangible asset, it is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of the intangible asset begins when development is complete and the asset is available for use. Deferred development costs have a finite useful life and are amortised over the period of expected sales from the related project on a straight-line basis.

**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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)**

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

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.

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

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

**INVESTMENT IN THE ASSOCIATE** - An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in the associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment loss.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate is eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate is included as part of the Group's investment in the associate.

If an investment in the associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

**FINANCIAL ASSETS**

**Initial recognition and measurement**

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### FINANCIAL ASSETS (continued)

#### Subsequent measurement

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

*Financial assets at fair value through profit or loss*

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

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

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

*Loans and receivables*

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

*Held-to-maturity investments*

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

*Available-for-sale financial assets*

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**FINANCIAL ASSETS (continued)**

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

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

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

**Derecognition**

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

**Regular way purchases or sales**

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

**IMPAIRMENT OF FINANCIAL ASSETS** - The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

**Financial assets carried at amortised cost**

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### IMPAIRMENT OF FINANCIAL ASSETS (continued)

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

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

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

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

**Financial assets carried at cost**

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

**Available-for-sale financial assets**

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**CASH AND CASH EQUIVALENTS** - Cash and cash equivalents comprise cash at banks and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

**INVENTORIES** - Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

**Raw materials**: purchase costs on a first-in first-out basis.

**Finished goods and work-in-progress**: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a first-in first-out 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.

**PROVISIONS** - Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

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

**FINANCIAL LIABILITIES**

**Initial recognition and measurement**

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**FINANCIAL LIABILITIES (continued)**

**Subsequent measurement**

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

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

*Financial liabilities at amortised cost*

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

**Derecognition**

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

**OFFSETTING OF FINANCIAL INSTRUMENTS** - Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position if there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**TRANSFERS BETWEEN LEVELS OF THE FAIR VALUE HIERARCHY** – Transfers between levels of the fair value hierarchy are deemed to have occurred on the date of the event or change in circumstances that caused the transfers.

**BORROWING COSTS** - Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other 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.

**EMPLOYMENT BENEFITS** - Employment benefits represent defined contribution plans operating in Hong Kong, the People's Republic of China ("PRC") and Japan, a defined retirement benefit plan operating in Japan for its directors, annual leave and share-based payments to employees.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### EMPLOYMENT BENEFITS (continued)

#### Defined contribution plans

Subsidiaries in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the subsidiaries in an independently administered fund.

Employees of the subsidiaries which operate in the PRC are required to participate in a pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the pension scheme.

A subsidiary in Japan maintains a defined contribution plan for all eligible employees with at least three years of service. Under the defined contribution plans, the subsidiary generally makes annual contributions to participants' accounts based on individual years of services.

#### Defined retirement benefit plan

The subsidiary in Japan also maintains an unfunded defined retirement benefit plan for its directors. The retirement benefit obligations recognised in the statement of financial position represent the present value of the defined benefit obligation.

#### Annual leave

Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

#### Share-based payments

The Group issues equity-settled share-based payments to the Group's employees and directors. Equity-settled share-based payments are measured at fair value of the equity instruments at the date of grant. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in notes 25(b) and 25(c). The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### LEASES

**As lessee**

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

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

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

**REVENUE RECOGNITION** - Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

**Sale of goods**

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

**Interest income**

Interest income is recognised using the effective interest method.

**INCOME TAXES** - Income tax expense represents the sum of the current tax and deferred tax.

**Current tax**

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

Current 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### INCOME TAXES (continued)

#### 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 joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred tax asset relating to the deductible temporary differences 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 joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### INCOME TAXES (continued)

#### 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.

**SEGMENT REPORTING** - For management purposes, the Group is organised into operating segments based on products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly reviews the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in note 34, including the factors used to identify the reportable segments and the measurement basis of segment information.

**TREASURY SHARES** - Own equity instruments, which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

**RELATED PARTIES** - A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**FINANCIAL INSTRUMENTS** - The Group enters into a variety of financial instruments to manage its exposure to foreign currency risk, including forward foreign exchange contracts and foreign currency options contracts.

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

### Derivative financial instruments

*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency options contracts and forward foreign exchange contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

*Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Judgements made in applying the Group's accounting policies**

Management is of the view that apart from those involving estimates as set out below in the note of key sources of estimation uncertainty, it has made no critical judgement in the process of applying the Group's accounting policies that would have a significant effect on the amounts recognised in the financial statements.

**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.

*Provision for inventories*

In determining the net realisable value of the Group's inventories, management estimated the recoverable amount of inventories based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration the fluctuations in price, the balance on hand relative to sales prospects and the condition of the inventories. The provision for inventories as at 31 December 2017 amounted to US$682,000 (2016: US$1,120,000) and the carrying amount of inventories is disclosed in note 17 to the financial statements.

*Impairment of investments in subsidiaries*

Where there are indicators of potential impairment of investments in subsidiaries, management projects the cash flows of these subsidiaries and estimates the recoverable amount by discounting the projected cash flows and terminal value to present value. Any change in such projections and estimates can result in changes to the allowance for impairment loss in future periods. The carrying amount of the investments in subsidiaries of the Company is disclosed in note 13 to the financial statements. No impairment loss was recognised for the years ended 31 December 2017 and 2016.

*Impairment of the investment in the associate*

Where there are indicators of potential impairment of the investment in the associate, management projects the cash flows of this associate and estimates the recoverable amount by discounting the projected cash flows and terminal value to present value. Any change in such projections and estimates can result in changes to the allowance for impairment loss in future periods. The carrying amount of the investment in the associate of the Group is disclosed in note 14 to the financial statements. At 31 December 2017, an impairment loss of US$931,000 (2016: US$360,000) has been recognised for the investment in the associate and the carrying amount of the investment in the associate was US$446,000 (2016: US$1,413,000).

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Key sources of estimation uncertainty (continued)**

*Impairment of trade receivables*

The Group assesses impairment on the trade receivables whenever events or changes in circumstances indicate that the carrying amount of the receivables may not be recoverable. Such assessment requires management's judgements and estimates, including the ageing of the trade receivables, historical collection patterns, existence of any disputes, trading history with customers and other available information concerning the creditworthiness of customers. The carrying amount of the trade receivables is disclosed in note 18 to the financial statements. No impairment loss was recognised for the years ended 31 December 2017 and 2016.

*Impairment of property, plant and equipment*

The Group assesses impairment on the property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such assessment requires management's judgements in forecasting industry trends, general market, economic conditions and other available information. The carrying amount of the property, plant and equipment is disclosed in note 11 to the financial statements. No impairment loss was recognised for the years ended 31 December 2017 and 2016.

*Impairment of available-for-sale investments*

The Group classifies certain assets as available-for-sale investments and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in profit or loss. The carrying amount of the available-for-sale investments is disclosed in note 15 to the financial statements. At 31 December 2017, no impairment loss (2016: US$83,000) has been recognised for available-for-sale investments in unquoted equity securities and the carrying amount of available-for-sale investments was US$984,000 (2016: US$926,000).

## 4. REVENUE

Revenue comprises the sales of products at invoiced value, net of discounts and sales returns.

## 5. OTHER INCOME

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| Interest income | 747 | 758 |
| Gain on disposal of property, plant and equipment | 30 | – |
| Gain on disposal of scrap materials | – | 96 |
| Fair value gain on held-for-trading investments | 4 | – |
| Sundry income | 167 | 130 |
| | 948 | 984 |

## 6. ADMINISTRATIVE EXPENSES

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| Employee-related expenses | 12,532 | 13,031 |
| Travelling and entertainment expenses | 1,450 | 1,602 |
| Professional fees | 1,438 | 1,395 |
| Utilities and office expenses | 1,021 | 1,065 |
| Rental expenses | 1,385 | 1,363 |
| Depreciation of property, plant and equipment | 345 | 436 |
| Fair value loss on held-for-trading investments | 204 | 82 |
| Loss on disposal of property, plant and equipment | 318 | 23 |
| Net loss on redemption of held-to-maturity investment | – | 206 |
| Net foreign exchange loss | 455 | 526 |
| Miscellaneous | 1,056 | 554 |
| | 20,204 | 20,283 |

## 7. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| Interest expenses on: | | |
| Bank borrowings | 139 | 86 |
| Obligations under finance leases | 3 | 3 |
| | 142 | 89 |

## 8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging/(crediting):

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| Audit fees paid to: | | |
| Auditor of the Company | 184 | 178 |
| Other auditors | 187 | 256 |
| Non-audit fees paid to: | | |
| Auditor of the Company | – | – |
| Other aditors | 8 | 8 |
| Employee benefit expenses (Note 25) | 23,696 | 24,474 |
| Depreciation of property, plant and equipment (Note 11) | 1,324 | 1,790 |
| Decrease in provision for inventories (Note 17) | (455) | (517) |
| Inventories recognised as an expense in cost of sales (Note 17) | 76,984 | 78,499 |
| Net loss on disposal of property, plant and equipment | 288 | 23 |
| Net foreign exchange loss | 455 | 526 |
| Changes in fair value of derivative financial instruments (Note 19) | 44 | (40) |
| Changes in fair value of held-for-trading investments (Note 15(d)) | 200 | 82 |
| Impairment loss of investment in the associate (Note 14) | 931 | 360 |
| Impairment loss of available-for-sale investments (Note 15(b)) | – | 83 |

## 9. INCOME TAX EXPENSE

**Major components of income tax expense**

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| Current income tax | 2,813 | 2,822 |
| Deferred tax (Note 26) | 9 | (187) |
| | 2,822 | 2,635 |

**Relationship between tax expense and accounting profit**

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rates for the years ended 31 December 2017 and 2016 is as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| Profit before tax | 4,545 | 3,038 |
| Tax at the domestic rates applicable to profits in the countries where the Group operates | 1,463 | 1,035 |
| Adjustments: | | |
| Non-deductible expenses | 569 | 1,057 |
| Income not subject to taxation | (307) | (180) |
| Tax losses not recognised | 728 | 940 |
| Effect of withholding tax at 5% on the undistributed earnings of the PRC subsidiaries (Note 26) | 337 | (217) |
| Others | 32 | – |
| Income tax expense recognised in profit or loss | 2,822 | 2,635 |

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

## 10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing profit, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the profit and share data used in the computation of basic and diluted earnings per share for the years ended 31 December:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| Profit attributable to owners of the Company | 1,723 | 403 |

| | Group | |
|---|---|---|
| | **Number of shares** | **Number of shares** |
| | **'000** | **'000** |
| Weighted average number of ordinary shares for the basic earnings per share computation* | 230,073 | 237,266 |
| Effect of dilutive share options | 1,046 | 1,891 |
| Weighted average number of ordinary shares for the diluted earnings per share computation* | 231,119 | 239,157 |

* The weighted average number of ordinary shares for basic and diluted earnings per share excludes treasury shares which have been purchased on the SGX-ST under the Shares Purchase Mandate (Note 27(b)).

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Buildings US$'000 | Plant and machinery US$'000 | Furniture, fixtures and equipment US$'000 | Leasehold improvements US$'000 | Motor vehicles US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **GROUP** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2016 | 2,112 | 13,045 | 3,488 | 8,892 | 925 | 28,462 |
| Additions | – | 519 | 59 | 254 | – | 832 |
| Disposals | – | (200) | (606) | (718) | (19) | (1,543) |
| Exchange differences | 51 | (634) | (90) | (425) | (36) | (1,134) |
| At 31 December 2016 and 1 January 2017 | 2,163 | 12,730 | 2,851 | 8,003 | 870 | 26,617 |
| Additions | – | 813 | 70 | 71 | 114 | 1,068 |
| Disposals | – | (898) | (262) | (624) | (200) | (1,984) |
| Exchange differences | 74 | 511 | 92 | 419 | 33 | 1,129 |
| At 31 December 2017 | 2,237 | 13,156 | 2,751 | 7,869 | 817 | 26,830 |
| **Accumulated depreciation and impairment loss** | | | | | | |
| At 1 January 2016 | 472 | 9,765 | 2,903 | 6,393 | 592 | 20,125 |
| Depreciation | 46 | 964 | 172 | 482 | 126 | 1,790 |
| Disposals | – | (182) | (598) | (718) | (16) | (1,514) |
| Exchange differences | 2 | (450) | (78) | (315) | (31) | (872) |
| At 31 December 2016 and 1 January 2017 | 520 | 10,097 | 2,399 | 5,842 | 671 | 19,529 |
| Depreciation | 42 | 633 | 131 | 437 | 81 | 1,324 |
| Disposals | – | (558) | (234) | (516) | (183) | (1,491) |
| Exchange differences | 20 | 363 | 81 | 323 | 25 | 812 |
| At 31 December 2017 | 582 | 10,535 | 2,377 | 6,086 | 594 | 20,174 |
| **Net carrying amount** | | | | | | |
| At 31 December 2016 | 1,643 | 2,633 | 452 | 2,161 | 199 | 7,088 |
| At 31 December 2017 | 1,655 | 2,621 | 374 | 1,783 | 223 | 6,656 |

**Assets held under finance leases**

The carrying amount of the Group's plant and equipment held under finance leases at the end of the year was US$97,000 (2016: US$56,000).

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

## 12. PREPAYMENT FOR THE ACQUISITION OF INTANGIBLE ASSET

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 |
| Prepayment | 962 | 970 |

Prepayment for the acquisition of the intangible asset amounting to US$962,000 (2016: US$970,000) represents an advance payment for the development of biotech products and the application of their related patents.

## 13. INVESTMENTS IN SUBSIDIARIES

(a)

| | Company | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 |
| Unquoted equity shares, at cost | 9,700 | 9,700 |
| Recognition of share-based payments | 1,634 | 1,634 |
| | 11,334 | 11,334 |

(b) The amount due from a subsidiary included in the Company's non-current assets of US$16,693,000 (2016: US$16,653,000) is unsecured, bears interest at 2% (2016: 2%) per annum and is not repayable within 12 months from the end of the reporting period.

Management considered the fair value of the amount due from a subsidiary is US$16,693,000 (2016: US$16,653,000).

(c) Details of the Company's subsidiaries are as follows:

| Name | Place of incorporation/ establishment | Principal activities | Proportion of ownership interest 2017 % | Proportion of ownership interest 2016 % |
|---|---|---|---|---|
| **Held by the Company** | | | | |
| Tomoike Industrial (Hong Kong) Holding Limited [(i)] ("TM Hong Kong BVI") | British Virgin Islands ("BVI") | Investment holding | 100 | 100 |
| **Held by TM Hong Kong BVI** | | | | |
| Tomoike Industrial (H.K.) Limited [(ii)] ("TM Hong Kong") | Hong Kong | Trading of parts and precision accessories for office equipment, electrical appliances and LCD modules, and LCD backlight units for LCD modules | 100 | 100 |

## 13. INVESTMENTS IN SUBSIDIARIES (continued)

(c) Details of the Company's subsidiaries are as follows (continued):

| Name | Place of incorporation/ establishment | Principal activities | Proportion of ownership interest | |
|---|---|---|---|---|
| | | | 2017 % | 2016 % |
| **Held by TM Hong Kong** | | | | |
| Tomoike Electronics (Shanghai) Co., Limited (ii) ("TM Pudong") | Shanghai, PRC | Manufacture and trading of parts and precision accessories for LCD modules | 100 | 100 |
| Tomoike Precision Machinery (Shanghai) Co., Limited (ii) ("TM Shanghai") | Shanghai, PRC | Manufacture and trading of parts and precision accessories for office equipment and electrical appliances | 100 | 100 |
| Tomoike Industrial Co., Limited (i) ("TM Japan") | Osaka, Japan | Manufacture of LCD backlight units for LCD modules, manufacture and trading of parts and precision accessories for office equipment, electrical appliances and LCD modules | 99.9 | 99.9 |
| Crystal Display (Shanghai) Holding Limited (i) ("CD Shanghai BVI") | BVI | Investment holding | 100 | 100 |
| Wah Hang Precision Machinery (H.K.) Limited (ii) ("WH Hong Kong") | Hong Kong | Investment holding | 100 | 100 |
| S.M.T. Assembly Limited (ii) ("SMT Hong Kong") | Hong Kong | Provision of surface mounting technique services in electronic product assembly | 100 | 100 |
| Minami Tec (Wuxi) Co., Limited (ii) ("MT Wuxi") | Wuxi, PRC | Provision of plastic injection for electronic consumer products and automobiles | 100 | 100 |
| Crystal Display Components (Shanghai) Co., Limited (ii) ("CD Shanghai") | Shanghai, PRC | Manufacture of LCD backlight units for LCD modules | 100 | 100 |
| Tomoike Precision Machinery (Dongguan) Co., Limited (ii) ("TM Dongguan") | Dongguan, PRC | Manufacture and trading of parts and precision accessories for LCD modules and manufacture of LCD backlight units for LCD modules | 100 | 100 |

## 13. INVESTMENTS IN SUBSIDIARIES (continued)

(c) Details of the Company's subsidiaries are as follows (continued):

| Name | Place of incorporation/ establishment | Principal activities | Proportion of ownership interest 2017 % | Proportion of ownership interest 2016 % |
|---|---|---|---|---|
| **Held by TM Hong Kong (continued)** | | | | |
| Guru Guru Limited [ii] ("Guru Guru") | Hong Kong | General trading | 100 | 100 |
| Tomoike (Shanghai) Agriculture Technology Co., Limited [ii] ("TAT Shanghai") | Shanghai, PRC | Provision of agriculture product management and advisory services | 100 | 100 |
| TWB Co., Limited [i] ("TWB") | Osaka, Japan | Provision of food and beverage | 99.9 | – |
| CDW Life Science Limited[i] [iii] ("CLS") | Osaka, Japan | Provision of Bio-Tech related research and development; manufacture, sale and marketing of healthcare and beauty products; and acquisition and holding of intellectual property, etc. | 99.8 | – |
| **Held by TM Hong Kong and Guru Guru** | | | | |
| Bangladesh Japan Cooperation Company Limited [i] ("BJ Cooperation") | Bangladesh | Liaison office, general trading and other businesses | 100 | 100 |
| **Held by WH Hong Kong** | | | | |
| Wah Hang Precision Machinery (Dongguan) Limited [ii] ("WH Dongguan") | Dongguan, PRC | Manufacture and trading of parts and precision accessories for office equipment and electrical appliances | 100 | 100 |
| **Held by SMT Hong Kong** | | | | |
| Dongguan Dali S.M.T. Assembly Limited [ii] ("SMT Dongguan") | Dongguan, PRC | Provision of surface mounting technique services in electronic product assembly | 100 | 100 |
| **Held by TM Shanghai** | | | | |
| Shanghai Gu Chang Yu Printing Technology Co., Limited [ii] ("GCY Shanghai") | Shanghai, PRC | Provision of label printing services | 100 | 100 |

## 13. INVESTMENTS IN SUBSIDIARIES (continued)

(c) Details of the Company's subsidiaries are as follows (continued):

| Name | Place of incorporation/ establishment | Principal activities | Proportion of ownership interest 2017 % | 2016 % |
|---|---|---|---|---|
| **Held by TWB** | | | | |
| Menkobo Muguruma Co., Limited [(i)] ("Muguruma") | Kagawa, Japan | Provision of food and beverage | 100 | – |
| **Held by CD Shanghai** | | | | |
| Tuo Mao Enterprise Management Advisory (Shanghai) Co., Limited [(ii)] ("TOMO") | Shanghai, PRC | Provision of food and beverage management and advisory services | 100 | 100 |
| **Held by TM Japan** | | | | |
| TWB [(i)] | Osaka, Japan | Provision of food and beverage | – | 100 |
| Muguruma [(i)] | Kagawa, Japan | Provision of food and beverage | – | 100 |

(i) Not required to be audited in the country of incorporation but audited for the purpose of incorporation in the consolidated financial statements of the Group by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network in the respective countries

(ii) Audited for the purpose of incorporation in the consolidated financial statements of the Group by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network in the respective countries

(iii) Incorporated during the financial year

During the current year, TM Hong Kong has acquired 100% shareholdings of TWB and Muguruma from TM Japan. On 27 December 2017, the Group has disposed of 0.1% shareholding in TWB Co., Limited. The Group's equity interests in TWB Co., Limited reduced from 100% to 99.9%.

## 14. INVESTMENT IN THE ASSOCIATE

The Group's investment in the associate is summarised below:

| | Group 2017 US$'000 | Group 2016 US$'000 |
|---|---|---|
| Share of net assets | 309 | 397 |
| Goodwill on acquisition | 1,486 | 1,486 |
| | 1,795 | 1,883 |
| Less: Impairment loss | (1,291) | (360) |
| Exchange differences | (58) | (110) |
| | 446 | 1,413 |

Since the associate has been loss-making for recent years, the directors have assessed the recoverable amount of the Group's investment in the associate as at 31 December 2017 and 31 December 2016 with reference to value in use calculation as at 31 December 2017 and 31 December 2016 (the "Calculation"). Based on the Calculation, an impairment loss of US$931,000 was recognised in profit or loss for the year ended 31 December 2017 (2016: US$360,000).

According to the Calculation, the recoverable amount of US$446,000 as at 31 December 2017 was derived from the present value of expected future cash flows to be generated from the investment in Suzhou Pengfu Photoelectric Technology Co., Limited ("Suzhou Pengfu"). The discount rate applied to the projected cash flows was 18.9% (2016: 13%).

Particulars of the associate are as follows:

| Name | Registered Share capital held | Place of establishment | Principal activity | Proportion of ownership interest |
|---|---|---|---|---|
| Suzhou Pengfu [(i)] | RMB 1,080,000 | Suzhou, PRC | Manufacture of light guide panels | 25% |

The Group's shareholding in the associate comprises equity shares held by a wholly-owned subsidiary of the Company.

The following table illustrates the aggregate financial information of the Group's associate.

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Share of the associate's loss for the year | 88 | 278 |
| Share of the associate's total comprehensive expense | 88 | 278 |
| Aggregate carrying amount of the Group's investment in the associate | 446 | 1,413 |

(i) Audited for the purpose of incorporation in the consolidated financial statements of the Group by a member firm of Ernst & Young in the PRC.

## 15. INVESTMENTS

| | Notes | Group 2017 US$'000 | Group 2016 US$'000 |
|---|---|---|---|
| **Non-current:** | | | |
| Available-for-sale investments: | | | |
| Equity securities (quoted), at fair value | (a) | 175 | 111 |
| Equity securities (unquoted), at cost | (b) | 809 | 815 |
| | | 984 | 926 |
| **Current:** | | | |
| Loans and receivables, at amortised cost | (c) | 1,008 | 1,216 |
| Held-for-trading investments: | | | |
| Equity securities (quoted), at fair value | (d) | 15 | 216 |
| | | 1,023 | 1,432 |

Notes:

(a) Investment in quoted equity securities offers the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair value of these securities is based on the quoted closing market prices on the last market day of the year.

During the year ended 31 December 2017, a gain on fair value of US$53,000 (2016: US$63,000) was recorded in other comprehensive income.

(b) Investment in unquoted equity securities represents investments in a Korean company which offers the Group the manufacturing and distribution rights for its products. No impairment loss was recognised in profit or loss for the year ended 31 December 2017 (2016: US$83,000).

(c) During the years ended 31 December 2017 and 2016, a subsidiary of the Company, TM Hong Kong, entered into a secured trade finance agreement with a third party for a maximum amount of US$2 million at an interest rate of 1% per month. The secured trade finance agreement was pledged by two (2016: three) residential properties located in Hong Kong. As at 31 December 2017, TM Hong Kong advanced US$1,008,000 (2016: US$1,216,000) to the third party which was repayable on demand. Management considered the fair value of this advance is US$1,008,000 (2016: US$1,216,000).

(d) The held-for-trading investments represented the quoted equity securities acquired for the purpose of selling or repurchasing in the near term. During the year ended 31 December 2017, a loss on fair value of US$200,000 (2016: US$82,000) was recorded in profit or loss.

The Group's investments denominated in foreign currency of the respective entities at 31 December are as follows:

| | Group 2017 US$'000 | Group 2016 US$'000 |
|---|---|---|
| Korean Won | 809 | 815 |
| US$ | 1,008 | 1,216 |
| | 1,817 | 2,031 |

## 16. OTHER ASSETS

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| Directors' insurance | 13 | 137 |
| Rental deposits | 407 | 386 |
| | 420 | 523 |

Directors' insurance represents the surrender values of an insurance policy taken by TM Japan, a subsidiary of the Company. Under the policy, TM Japan pays premiums, incurs a portion of such payments and records a recoverable amount approximating the surrender values of the insurance policy. Upon maturity of the insurance policy, the payouts by the insurance company will be retained by TM Japan. Payouts by the insurance company on any death claims during the insured period will be made to TM Japan.

## 17. INVENTORIES

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| **Consolidated statement of financial position:** | | |
| Raw materials | 2,502 | 1,974 |
| Work-in-progress | 404 | 415 |
| Finished goods | 3,957 | 3,842 |
| | 6,863 | 6,231 |
| **Consolidated statement of profit or loss:** | | |
| Inventories recognised as an expense in cost of sales | 76,984 | 78,499 |
| Inclusive of the decrease in provision for inventories | (455) | (517) |

Provision for inventories is made in full for the inventories with poor sales prospects.

## 18. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Trade receivables | 24,014 | 17,400 | – | – |
| Other receivables | 1,213 | 723 | 52 | 88 |
| Prepayments | 1,540 | 1,062 | 28 | 9 |
| Value-added tax recoverable | 244 | 309 | – | – |
| Deposits | 123 | 239 | – | – |
| | 27,134 | 19,733 | 80 | 97 |

**Trade receivables**

Trade receivables are non-interest-bearing and are generally on terms ranging from 30 to 120 days (2016: 60 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The Group's trade and other receivables denominated in foreign currencies of the respective entities at 31 December are as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 |
| Japanese Yen ("JPY") | 35 | 819 |
| US$ | 19,489 | 12,276 |
| Renminbi ("RMB") | – | 15 |
| Singapore dollars ("SG$") | 52 | 87 |

The Group has trade receivables amounting to US$1,475,000 (2016: US$790,000) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and their ageing analysis at the end of the reporting period are as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 |
| Trade receivables past due but not impaired: | | |
| Less than 30 days overdue | 1,017 | 555 |
| 30 to 60 days overdue | 242 | 90 |
| Over 60 days overdue | 216 | 145 |
| | 1,475 | 790 |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Contract amount | Assets | Liabilities | Contract amount | Assets | Liabilities |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| Foreign currency options contracts | 2,300 | – | 6 | 544 | 38 | – |

The Group entered into foreign currency options contracts with banks to manage its foreign exchange exposures. Under the contracts, the Group has the option to buy Hong Kong dollars ("HKD") with US$, buy SG$ with US$ and buy US$ with JPY (2016: buy HKD with US$ and buy US$ with JPY) at a fixed rate and similarly, the banks have the option to buy US$ with HKD, buy US$ with SG$ and buy JPY with US$ (2016: buy US$ with HKD and buy JPY with US$) at the same rate. In 2017, the foreign currency options contracts have maturity dates from August 2017 to July 2018 (2016: from February 2016 to January 2017).

Changes in fair value of the foreign currency options contracts amounting to US$44,000 (2016: US$40,000 credited) were charged to profit or loss.

## 20. CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Cash at banks and on hand | 27,543 | 23,569 | 128 | 272 |
| Short-term deposits | 16,376 | 21,603 | – | – |
| | 43,919 | 45,172 | 128 | 272 |
| Less: pledged bank deposit | (147) | (146) | – | – |
| | 43,772 | 45,026 | 128 | 272 |

Cash and bank balances comprise cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between 7 days and 90 days, depending on the immediate cash requirements of the Group and the Company, and earns interest at the respective short-term deposit rates. The weighted average effective interest rate as at 31 December 2017 for the Group was 1.19% (2016: 2.07%) per annum.

A fixed deposit of US$147,000 (2016: US$146,000) was placed as security for banking facilities. This fixed deposit earns interest at an average rate of 0.54% (2016: 0.54%) per annum and will mature in 9 months (2016: 9 months) after the end of the reporting period.

## 20. CASH AND BANK BALANCES (continued)

The Group's cash and bank balances denominated in foreign currencies of the respective entities at 31 December are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| JPY | 459 | 1,043 |
| US$ | 18,124 | 16,239 |
| RMB | 7,889 | 17,995 |
| SG$ | 101 | 172 |

## 21. GOODWILL

| | **Group** |
|---|---|
| | **US$'000** |
| **Cost** | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | 1,516 |
| Accumulated impairment | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | (1,516) |
| Net carrying amount | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | – |

Goodwill acquired in a business combination is allocated, on acquisition, to a cash-generating unit ("CGU") that is expected to benefit from that business combination. The carrying amount of goodwill is allocated to TM Japan as a single CGU.

During the year ended 31 December 2011, due to the operation in Japan undergoing an internal restructuring and downsizing in its manufacturing capacity, goodwill arising from the acquisition of TM Japan was fully impaired.

## 22. BANK BORROWINGS

| | Maturity | Group 2017 US$'000 | Group 2016 US$'000 |
|---|---|---|---|
| **Current:** | | | |
| Bank borrowings, unsecured | 2018 | 8,004 | 5,298 |
| **Non-current:** | | | |
| Bank borrowings, unsecured | 2019 | 1,648 | 716 |
| Total bank borrowings | | 9,652 | 6,014 |

The bank borrowings are unsecured and bear interest at rates ranging from 0.28% to 2.65% (2016: 0.28% to 2.20%) per annum.

Bank borrowings amounting to US$6,414,000 (2016: US$3,431,000) are unsecured and carry variable interest rates quoted by the banks with reference to their cost of fund.

Bank borrowings amounting to US$3,238,000 (2016: US$2,583,000) are unsecured and carry fixed interest rates.

Management considered the fair value of the Group's fixed rate bank borrowings is US$3,248,000 (US$2,579,000).

The Group's bank borrowings denominated in foreign currency of the respective entities as at 31 December are as follows:

| | Group 2017 US$'000 | Group 2016 US$'000 |
|---|---|---|
| US$ | 8,498 | 4,123 |
| HKD | 128 | – |
| | 8,626 | 4,123 |

## 23. FINANCE LEASES

The Group leases certain of its plant and equipment under finance leases and have remaining lease terms ranging from one to five years.

At the end of each reporting period, the total future minimum lease payments under finance leases and their present values are as follows:

| | Group | | | |
|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | 2017 US$'000 | 2016 US$'000 | 2017 US$'000 | 2016 US$'000 |
| Amounts payable: | | | | |
| Within one year | 46 | 66 | 45 | 65 |
| In the second to fifth years, inclusive | 54 | 16 | 52 | 16 |
| | 100 | 82 | 97 | 81 |
| Less: Future finance charges | (3) | (1) | | |
| Present value of lease obligations | 97 | 81 | | |
| Portion classified as current liabilities | (45) | (65) | | |
| Non-current portion | 52 | 16 | | |

The borrowing rates ranged from 1.50% to 2.98% (2016: 1.50% to 2.60%) per annum. Interest rates are fixed at the contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Management considered the fair value of the Group's obligations under finance leases is US$97,000 (2016: US$81,000).

The Group's obligations under finance leases are secured by the lessors' titles to the leased assets (Note 11).

The Group's finance leases denominated in foreign currency of the respective entities at 31 December are as follows:

| | Group | |
|---|---|---|
| | 2017 US$'000 | 2016 US$'000 |
| US$ | 80 | 48 |

## 24. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **US$'000** | **US$'000** | **US$'000** | **US$'000** |
| Trade payables | 11,116 | 11,494 | – | – |
| Other payables | 3,266 | 2,593 | 47 | 204 |
| Accruals | 1,566 | 1,461 | 93 | 78 |
| | 15,948 | 15,548 | 140 | 282 |

**Trade payables**

Trade payables are non-interest-bearing and are generally settled on terms of 30 to 120 days (2016: 30 to 120 days).

The Group's trade and other payables denominated in foreign currencies of the respective entities at 31 December are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| JPY | 52 | 352 |
| US$ | 4,822 | 5,659 |
| RMB | 119 | 69 |

## 25. EMPLOYEE BENEFITS

| | | Group | |
|---|---|---|---|
| | **Note** | **2017** | **2016** |
| | | **US$'000** | **US$'000** |
| **Employee benefit expenses, including directors:** | | | |
| Salaries and bonuses | | 21,244 | 21,745 |
| Defined contribution plans | | 2,361 | 2,672 |
| Defined retirement benefit plan | (a) | 91 | 57 |
| | | 23,696 | 24,474 |

(a) Retirement benefit obligations

TM Japan maintains an unfunded defined retirement benefit plan for its directors. The amount for the year of approximately US$91,000 (2016: US$57,000) has been charged to profit or loss. The retirement benefit obligations with a carrying amount of US$244,000 (2016: US$347,000) at year end represents the present value of the defined retirement benefit plan.

Management is of the view that as the retirement benefit obligation is not significant, the required disclosures under IAS 19 *Employee Benefits* are not necessary.

## 25. EMPLOYEE BENEFITS (continued)

(b) Share-based payments – Share options

The Company has a share option scheme, CDW Employees' Share Option Scheme 2013 (the "2013 Scheme"), for all employees and directors of the Group. This option scheme is administrated by the committee comprising three directors who are the members of the Remuneration Committee ("RC"). Options are exercisable at a price based on the average of the closing prices for the shares of the Company on the SGX-ST for the five market days preceding the date of grant (the "Market Price") with a vesting period of one year from the date of grant. The committee may at its discretion fix the exercise price at a discount not exceeding 20% of the Market Price with a vesting period of two years from the date of grant. If the options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if an employee leaves the Group before the options vest.

Information about share-based payment arrangements is as follows:

| Option series | Number | Grant date | Expiry date | Exercise price | Fair value at grant date |
|---|---|---|---|---|---|
| 2013 Scheme | | | | | |
| Issued on 30 May 2014 | 8,500,000 | 30 May 2014 | 29 May 2019 | SG$0.216 | US$0.08 |

The following reconciles the outstanding share options granted under the 2013 Scheme at the beginning and end of the financial year:

| | Group and Company | | | | | | |
|---|---|---|---|---|---|---|---|
| Date of grant | Balance at beginning of financial year | Cancelled/ lapsed | Granted | Exercised | Balance at the end of financial year | Exercise price per share | Exercisable period |
| 2013 Scheme | | | | | | | |
| 30 May 2014 | 8,500,000 | (1,750,000) | – | – | 6,750,000 | SG$0.216 | 30 May 2016 to 29 May 2019 |

As at 31 December 2017, the number of share options amounted to 6,750,000 (2016: 8,500,000) which had a weighted average remaining contractual life of approximately 1.4 and 2.4 years respectively.

The fair value of the share options granted under the 2013 Scheme is estimated at the grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the share options were granted.

## 25. EMPLOYEE BENEFITS (continued)

(b) Share-based payments – Share options (continued)

The inputs into the model were as follows:

| | **2013 Scheme** |
|---|---|
| Dividend yield (%) | 10.45 |
| Expected volatility (%) | 62.66 |
| Risk-free interest rate (%) | 1.30 |
| Expected life of option (year) | 5 |
| Weighted average exercise price (Singapore cents) | 10.8 |
| Weighted average share price on date of grant (Singapore cents) | 13.4 |
| Early Exercise Behaviour | 208% or 187% of the exercise price |

For the 2013 Scheme, the expected volatility was determined by calculating the historical volatility of the Company's share price from 1 June 2009 to 30 May 2014. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

For the year ended 31 December 2017, the Group did not recognise any equity-settled share-based payment expense (2016: US$101,000).

(c) Share-based payments – Share performance

The Company has a share performance scheme, CDW Share Performance Scheme (the "Performance Scheme"), for all employees and directors of the Group. The Performance Scheme is administrated by the committee comprising three directors who are the members of RC. An award granted under the Performance Scheme represents the right to receive fully paid shares of the Company free of charge, upon the Group's employees and directors achieving the prescribed performance conditions (the "Award") as set out in the relevant award approved by the committee at its absolute discretion. Awards are forfeited if the employee leaves the Group before the reward vests. During the years ended 31 December 2017 and 2016, no Awards were granted to any employees and directors under the Performance Scheme.

## 26. DEFERRED TAX

| | Group | | | |
|---|---|---|---|---|
| | Consolidated statement of financial position | | Consolidated statement of profit or loss | |
| | 2017 US$'000 | 2016 US$'000 | 2017 US$'000 | 2016 US$'000 |
| **Deferred tax liabilities** | | | | |
| Difference in depreciation for tax purposes | – | (20) | – | 8 |
| Temporary difference relating to held-to-maturity investment | – | – | – | 340 |
| Directors' insurance | – | (17) | – | 16 |
| Retirement benefit obligations | – | 91 | – | (94) |
| Withholding tax on undistributed earnings of the PRC subsidiaries (Note 9) | (337) | (304) | (33) | 217 |
| Unutilised tax losses | – | – | – | (175) |
| Others | – | 73 | – | (125) |
| | (337) | (177) | (33) | 187 |
| **Deferred tax assets** | | | | |
| Difference in depreciation for tax purposes | (10) | – | – | – |
| Directors' insurance | 1 | – | (18) | – |
| Retirement benefit obligations | – | – | (33) | – |
| Others | 145 | – | 75 | – |
| | 136 | – | 24 | – |
| | (201) | (177) | | |
| Deferred tax credit/(charge) (Note 9) | | | (9) | 187 |

**Withholding tax on undistributed earnings of the PRC subsidiaries**

Pursuant to the Corporate Income Tax ("CIT") Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate of 5% may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable withholding tax rate of the Group was 5% during the year ended 31 December 2017 (2016: 5%).

**Unrecognised tax losses**

At the end of the reporting period, the Group had tax losses of approximately US$9,237,000 (2016: US$5,938,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, for which no deferred tax assets are recognised for these losses due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

**Tax consequences of proposed dividends**

There are no income tax consequences (2016: Nil) attached to the dividends to the shareholders proposed by the Company that are recognised as liabilities in the financial statements (Note 35).

## 27. SHARE CAPITAL AND TREASURY SHARES

### (a) Share capital

| | Group and Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Number of ordinary shares | US$ | Number of ordinary shares | US$ |
| **Authorised** | | | | |
| At beginning and end of the year | 1,500,000,000 | 30,000,000 | 1,500,000,000 | 30,000,000 |
| **Issued and fully paid up** | | | | |
| At beginning and end of the year | 252,177,110 | 10,087,000 | 252,177,110 | 10,087,000 |

On 26 August 2016, the Company consolidated every two (2) existing ordinary shares of par value of US$0.02 each in the authorised and issued capital of the Company into one (1) consolidated share of par value of US$0.04 in the authorised and issued capital of the Company. Before the share consolidation, the Group and Company's issued and fully paid up share capital was US$10,087,000 represented by 474,914,221 ordinary shares (excluding treasury shares) and 29,440,000 treasury shares.

As at 31 December 2017, 22,532,202 (2016: 19,947,102) ordinary shares included in the above shares had been purchased on the SGX-ST under the Shares Purchase Mandate and held as treasury shares.

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company. Each ordinary share carries one vote without restrictions.

The Company has one employee share option scheme under which options to subscribe for the Company's ordinary shares have been granted to employees of the Group.

### (b) Treasury shares

| | Group and Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Number of ordinary shares '000 | US$'000 | Number of ordinary shares '000 | US$'000 |
| At 1 January | 19,947 | 2,980 | 29,440 | 2,061 |
| Consolidation of ordinary shares held in treasury shares | – | – | (14,720) | – |
| Treasury shares transferred out to satisfy share options exercised | – | – | (500) | (70) |
| Shares purchased under Shares Purchase Mandate and held in treasury shares | 2,585 | 451 | 5,727 | 989 |
| At 31 December | 22,532 | 3,431 | 19,947 | 2,980 |

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

## 28. MERGER RESERVE, STATUTORY RESERVE FUND, ENTERPRISE EXPANSION FUND, OTHER RESERVES, FAIR VALUE ADJUSTMENT RESERVE AND FOREIGN CURRENCY TRANSLATION RESERVE

### Merger reserve

Merger reserve represents the difference between the combined share capital of the entities in the merged group and the capital of the Company arising from a restructuring exercise undertaken in 2005.

### Statutory Reserve Fund

In accordance with the Foreign Enterprise Law applicable to the subsidiary in the PRC, a subsidiary is required to make appropriation to the Statutory Reserve Fund ("SRF"). At least 10% of the statutory profits after tax as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SRF is not available for dividend distribution to shareholders.

### Enterprise Expansion Fund

The Enterprise Expansion Fund can be used for business expansion or conversion into capital, provided that such conversion is approved by a resolution at a shareholders' meeting.

The amount of the profit after tax to be transferred to the Enterprise Expansion Fund is determined by the board of directors of the PRC subsidiaries or the articles of associations of the PRC subsidiaries.

### Other reserves

Other reserves represent the staff welfare fund appropriated from retained earnings at a discretionary percentage of profit after tax for the year.

### Fair value adjustment reserve

Fair value adjustment reserve represents the cumulative fair value changes, net of tax, of available-for-sale investments until they are disposed of or impaired.

### Foreign currency translation reserve

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into US$ are brought to account by recognising those exchange differences in other comprehensive income and accumulating them under foreign currency translation reserve.

## 29. RELATED PARTY TRANSACTIONS

Compensation of directors and key management personnel

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| Salaries, allowances and benefits in kind | 2,008 | 1,981 |
| Defined contribution plans | 33 | 36 |
| Share-based payments – share options | – | 87 |
| | 2,041 | 2,104 |
| Comprise amounts paid to: | | |
| Directors of the Company | 1,184 | 1,021 |
| Other key management personnel | 857 | 1,083 |
| | 2,041 | 2,104 |

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

**Other transactions**

In addition to those disclosed elsewhere in these financial statements, the Group has purchased goods from Suzhou Pengfu at a consideration of US$1,882,000 (2016: US$733,000) for the year ended 31 December 2017.

## 30. COMMITMENTS

**Operating lease commitments – as lessee**

The Group has entered into commercial leases on certain offices, factory properties and apartments. These leases have an average term between one and five years with no renewal option and there is no contingent rent provision included in the contracts.

Minimum lease payments, recognised as an expense in profit or loss for the year ended 31 December 2017, amounted to US$2,241,000 (2016: US$2,636,000).

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| Not later than one year | 1,659 | 1,845 |
| Later than one year but not later than five years | 898 | 2,441 |
| | 2,557 | 4,286 |

## 31. FAIR VALUES OF ASSETS AND LIABILITIES

**Fair value hierarchy**

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs 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
- 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.

**Assets and liabilities measured 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:

| | 2017 | | | |
|---|---|---|---|---|
| | Fair value measurements at the end of the reporting period using | | | |
| | Quoted prices in active markets for identical instruments (Level 1) | Significant observable inputs other than quoted prices (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Group** | | | | |
| **Assets measured at fair value** | | | | |
| **Financial assets:** | | | | |
| Available-for-sale financial assets (Note 15) | | | | |
| Equity securities (quoted) | 175 | – | – | 175 |
| Held-for-trading financial assets (Note 15) | | | | |
| Equity securities (quoted) | 15 | – | – | 15 |
| **Financial assets as at 31 December 2017** | 190 | – | – | 190 |
| Liabilities measured at fair value | | | | |
| Financial liabilities | | | | |
| Derivative financial instruments (Note 19) | | | | |
| Foreign currency options contracts | – | 6 | – | 6 |

## 31. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

**Assets and liabilities measured at fair value (continued)**

| | 2016 | | | |
|---|---|---|---|---|
| | Fair value measurements at the end of the reporting period using | | | |
| | Quoted prices in active markets for identical instruments (Level 1) | Significant observable inputs other than quoted prices (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Group** | | | | |
| **Assets measured at fair value** | | | | |
| **Financial assets:** | | | | |
| Available-for-sale financial assets (Note 15) | | | | |
| Equity securities (quoted) | 111 | – | – | 111 |
| Held-for-trading financial assets (Note 15) | | | | |
| Equity securities (quoted) | 216 | – | – | 216 |
| Derivative financial instruments (Note 19) | | | | |
| Foreign currency options contracts | – | 38 | – | 38 |
| **Financial assets as at 31 December 2016** | 327 | 38 | – | 365 |

### Level 2 fair value measurements

The following is a description of the valuation techniques and inputs used in the fair value measurement for assets and liabilities that are categorised within Level 2 of the fair value hierarchy:

*Derivative financial instruments*

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

### Level 3 fair value measurements

The Group has no financial assets or liabilities that are categorised within Level 3 of the fair value hierarchy.

## 31. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

**Assets and liabilities not carried at fair value but for which fair value is disclosed**

The following table shows an analysis of the Group's and the Company's assets and liabilities not measured at fair value at 31 December 2017 and 2016 but for which fair value is disclosed:

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Fair value measurements at the end of the reporting period using | | | | |
| | Quoted prices in active markets for identical instruments (Level 1) | Significant observable inputs other than quoted prices (Level 2) | Significant unobservable inputs (Level 3) | Total | Carrying amount |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Group** | | | | | |
| **Assets** | | | | | |
| Loans and receivables | – | – | 1,008 | 1,008 | 1,008 |
| **Liabilities** | | | | | |
| Fixed rate bank borrowings | – | 3,248 | – | 3,248 | 3,238 |
| Obligations under finance leases | – | 97 | – | 97 | 97 |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Fair value measurements at the end of the reporting period using | | | | |
| | Quoted prices in active markets for identical instruments (Level 1) | Significant observable inputs other than quoted prices (Level 2) | Significant unobservable inputs (Level 3) | Total | Carrying amount |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Group** | | | | | |
| **Assets** | | | | | |
| Available-for-sale financial assets | | | | | |
| equity securities (unquoted) | – | – | 815 | 815 | 815 |
| Loans and receivables | – | – | 1,216 | 1,216 | 1,216 |
| **Liabilities** | | | | | |
| Fixed rate bank borrowings | – | 2,579 | – | 2,579 | 2,583 |
| Obligations under finance leases | – | 81 | – | 81 | 81 |

## 31. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

**Assets and liabilities not carried at fair value but for which fair value is disclosed (continued)**

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Fair value measurements at the end of the reporting period using | | | | |
| | Quoted prices in active markets for identical instruments (Level 1) | Significant observable inputs other than quoted prices (Level 2) | Significant unobservable inputs (Level 3) | Total | Carrying amount |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Company** | | | | | |
| **Assets** | | | | | |
| Amount due from a subsidiary | – | 16,693 | – | 16,693 | 16,693 |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Fair value measurements at the end of the reporting period using | | | | |
| | Quoted prices in active markets for identical instruments (Level 1) | Significant observable inputs other than quoted prices (Level 2) | Significant unobservable inputs (Level 3) | Total | Carrying amount |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Company** | | | | | |
| **Assets** | | | | | |
| Amount due from a subsidiary | – | 16,653 | – | 16,653 | 16,653 |

Determination of fair value

*Available-for-sale financial assets*

The fair value as disclosed in the table above is estimated by assessing the potential effect of using reasonably possible alternatives as inputs to the valuation model.

*Loans and receivables*

The fair value as disclosed in the table above is estimated by discounting future cash flows at the market incremental lending rate for similar types of lending with management's estimate of credit risk premium.

## 31. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

**Assets and liabilities not carried at fair value but for which fair value is disclosed (continued)**

Determination of fair value (continued)

*Bank borrowings, obligations under finance leases and an amount due from a subsidiary*

The fair values as disclosed in the table above are estimated by discounting expected future cash flows at the market incremental lending rate for similar types of borrowings or leasing arrangements at the end of the reporting period. The Group's own non-performance risk for bank borrowings and obligations under finance leases as at 31 December 2017 and 2016 was assessed to be insignificant. The credit risk of the amount due from a subsidiary was considered insignificant.

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

**Categories of financial instruments**

The following table sets out the financial instruments as at the end of the reporting period:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Financial assets:** | | | | |
| Available-for-sale investments | 984 | 926 | – | – |
| Held-for-trading investments | 15 | 216 | – | – |
| Loans and receivables (including cash and cash equivalents) | 70,277 | 64,593 | 16,873 | 17,013 |
| At fair value through profit or loss: derivative financial instruments | – | 38 | – | – |
| **Financial liabilities:** | | | | |
| Amortised cost | 25,369 | 21,432 | 140 | 282 |
| At fair value through profit or loss: derivative financial instruments | 6 | – | – | – |

**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 credit risk, liquidity risk, interest rate risk, foreign currency risk and market price risk. Management reviews and agrees policies and procedures for the management of these risks. The board of directors provides oversight to the effectiveness of the risk management process. 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 as 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, policies and processes for the management of these risks.

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

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including investments, cash and short-term deposits), the Group minimises 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 as a mean of mitigating the risk of financial loss from defaults. In addition, receivable balances are monitored on an ongoing basis. Therefore, the Group's exposure to bad debts is not significant.

The Group has a few major customers resulting in concentration of credit risk. The top five customers of the Group accounted for approximately 78% (2016: 78%) of the trade receivables as at the end of the reporting period. Management considers the credit risk to be low as these customers are large, reputable corporations with good credit history.

An allowance is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Management has evaluated the credit risk relating to outstanding debts at the end of the reporting period and has determined that there is no doubtful amount for which allowance is necessary.

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group finances the liquidity through internally generated cash flows and bank and other borrowings (both short-term and long-term with three to five years' terms), and to minimise liquidity risk by keeping committed credit lines available with the Group's major banks. The Group's policy is to maintain a low gearing policy and to have sufficient cash and cash equivalents to finance the Group's activities through internally generated cash flows and raising long-term bank and other borrowings. For temporary shortage of fund, the Group will raise short-term bank and other borrowings to meet financial obligations.

At the end of the reporting period, approximately 83% (2016: 88%) of the Group's bank borrowings will mature in less than one year based on the carrying amount reflected in the financial statements.

The Group assessed the concentration of risk with respect to refinancing its debts and concluded that such risk is low. Access to sources of funding is sufficiently available and debts maturing within 12 months can be rolled over with existing lenders.

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

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

| | 31 December 2017 | | | | 31 December 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | One year or less US$'000 | One to five years US$'000 | Over five years US$'000 | Total US$'000 | One year or less US$'000 | One to five years US$'000 | Over five years US$'000 | Total US$'000 |
| **GROUP** | | | | | | | | |
| **Financial assets:** | | | | | | | | |
| Trade and other receivables | 25,350 | – | – | 25,350 | 18,205 | – | – | 18,205 |
| Cash and short-term deposits | 44,360 | – | – | 44,360 | 46,118 | – | – | 46,118 |
| Loans and receivables | 1,129 | – | – | 1,129 | 1,362 | – | – | 1,362 |
| Derivative financial instruments | – | – | – | – | 38 | – | – | 38 |
| Total undiscounted financial assets | 70,839 | – | – | 70,839 | 65,723 | – | – | 65,723 |
| **Financial liabilities:** | | | | | | | | |
| Trade and other payables | 15,620 | – | – | 15,620 | 15,336 | – | – | 15,336 |
| Bank borrowings | 8,165 | 1,688 | – | 9,853 | 5,366 | 718 | – | 6,084 |
| Finance leases | 46 | 54 | – | 100 | 66 | 16 | – | 82 |
| Derivative financial instruments | 6 | – | – | 6 | – | – | – | – |
| Total undiscounted financial liabilities | 23,837 | 1,742 | – | 25,579 | 20,768 | 734 | – | 21,502 |
| Total net undiscounted financial assets/(liabilities) | 47,002 | (1,742) | – | 45,260 | 44,955 | (734) | – | 44,221 |
| **COMPANY** | | | | | | | | |
| **Financial assets:** | | | | | | | | |
| Other receivables | 52 | – | – | 52 | 88 | – | – | 88 |
| Cash and short-term deposits | 128 | – | – | 128 | 272 | – | – | 272 |
| Amount due from a subsidiary | – | 17,027 | – | 17,027 | – | 16,986 | – | 16,986 |
| Total undiscounted financial assets | 180 | 17,027 | – | 17,207 | 360 | 16,986 | – | 17,346 |
| **Financial liabilities:** | | | | | | | | |
| Other payables | 140 | – | – | 140 | 282 | – | – | 282 |
| Total undiscounted financial liabilities | 140 | – | – | 140 | 282 | – | – | 282 |
| Total net undiscounted financial assets | 40 | 17,027 | – | 17,067 | 78 | 16,986 | – | 17,064 |

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 their bank balances and fixed deposits that are at variable rate and certain bank and other borrowings that are repayable over three to five years by instalment at fixed rates and short-term bank and other borrowings that are arranged at variable interest rates pegged to the inter bank rates in Hong Kong and Japan. The Group's policy is to borrow long-term bank and other borrowings with three to five years' terms at fixed rates to hedge against the increase in interest rates for short-term bank and other borrowings in a cost efficient manner. At the end of the reporting period, approximately 34% (2016: 43%) of the Group's bank borrowings were at fixed rate of interest.

*Interest rate sensitivity*

At the end of the reporting period, if interest rates had been 50 (2016: 50) basis points lower/higher with all other variables held constant, the Group's profit before tax would have been US$104,000 (2016: US$100,000) higher/lower, arising mainly as a result of lower/higher interest expense on floating rate bank borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility as in prior years.

### Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases that are denominated in currencies other than the respective functional currencies of the group entities, primarily JPY, US$, SG$ and RMB, and therefore exposed to foreign exchange risk.

| | Group | | | |
|---|---|---|---|---|
| | Liabilities | | Assets | |
| | 2017 | 2016 | 2017 | 2016 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| JPY | 52 | 352 | 494 | 1,862 |
| US$ | 13,833 | 9,830 | 38,863 | 30,546 |
| SG$ | – | – | 153 | 259 |
| RMB | 90 | 69 | 7,889 | 18,010 |

The Group may from time to time enter into forward foreign exchange contracts and foreign currency options contracts to manage its exposure to foreign currency risk.

The Group has a number of investments in foreign subsidiaries whose net assets are exposed to currency translation risk. The Group does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Foreign currency risk (continued)**

*Foreign currency sensitivity*

The following table details the sensitivity to a 10% (2016: 10%) increase/decrease in exchange rates of the relevant foreign currencies against the functional currency of each group entity. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans.

If the following foreign currencies strengthen by 10% (2016: 10%) against the functional currency of each group entity, profit before tax would increase by:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| JPY | 44 | 151 |
| US$ | 2,503 | 2,072 |
| SG$ | 15 | 26 |
| RMB | 780 | 1,794 |

If the following foreign currencies weaken by 10% (2016: 10%) against the functional currency of each group entity, profit before tax would decrease by:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **US$'000** | **US$'000** |
| JPY | (44) | (151) |
| US$ | (2,503) | (2,072) |
| SG$ | (15) | (26) |
| RMB | (780) | (1,794) |

The above impact is mainly attributed to the exposure outstanding on cash and bank balances, bank borrowings, receivables and payables at the end of the reporting period.

**Market price risk**

Market price 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 prices (other than interest or exchange rates). The Group is exposed to market price risk arising from its investments in quoted equity securities. These securities are quoted on the stock exchange in Japan and Hong Kong and are classified as available-for-sale investments and held-for-trading investments, respectively.

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Market price risk (continued)**

The Group is exposed to market price risk arising from its investments in securities. The management of the Group monitors its market risk on a regular basis in accordance with the Group's investment objective and policies.

*Market price sensitivity*

At the end of the reporting period, if market price had been 10% (2016: 10%) higher/lower with all other variables held constant, the Group's other comprehensive income would have been US$18,000 (2016: US$11,000) higher/lower, arising as a result of higher/lower in the fair value of quoted equity securities classified as available-for-sale investments. And, the Group's profit before tax would have been US$2,000 (2016: US$22,000) higher/lower, arising as a result of higher/lower in the fair value of quoted equity securities classified as held-for-trading investments.

## 33. CAPITAL MANAGEMENT OBJECTIVES AND POLICIES

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 shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of the Group's operation condition. To maintain or adjust the capital structure, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-back as well as the issue of new debts or the redemption of existing debts. The Group also reviews the capital structure on a semi-annual basis and whenever necessary. As part of this review, the Group considers the cost of capital and the risks associated with each class of capital. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

As disclosed in note 28, certain subsidiaries of the Group are required by the Foreign Enterprise Law of the PRC to contribute to and maintain non-distributable SRF whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiaries for the financial years ended 31 December 2017 and 2016.

The Group monitors capital using a gearing ratio, which is total bank borrowings and obligations under finance leases for the Group, divided by shareholders' equity. The gearing ratio as at 31 December 2017 was 16.0% (2016: 10.1%).

## 34. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has four reportable segments as follows:

- LCD backlight units: manufacture of LCD backlight units for LCD modules
- Office automation: manufacture and trading of parts and precision accessories for office equipment and electrical appliances
- LCD parts and accessories: manufacture and trading of parts and precision accessories for LCD modules and of payment devices
- Others: perform other business including general trading, food and beverage and life sciences

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects as explained in the table below, is measured differently from profit before tax in the consolidated financial statements. Corporate expenses, finance costs, interest income, share of loss of the associate, impairment loss of investment in the associate, impairment loss of available-for-sale investments and income tax expense are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Segment assets excluded available-for-sale investments, loans and receivables, held-for-trading investments, other assets, investment in the associate, prepayment for the acquisition of intangible asset, deferred tax assets and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities excluded income tax payable, deferred tax liabilities, retirement benefit obligations, bank borrowings, obligations under finance leases and unallocated corporate liabilities as these liabilities are managed on a group basis.

## 34. SEGMENT INFORMATION (continued)

| | LCD backlight units US$'000 | Office automation US$'000 | LCD parts and accessories US$'000 | Others US$'000 | Eliminations US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **REVENUE** | | | | | | |
| External sales | 59,780 | 22,116 | 20,731 | 1,463 | – | 104,090 |
| Inter-segment sales * | – | 431 | 11 | – | (442) | – |
| Total revenue | 59,780 | 22,547 | 20,742 | 1,463 | (442) | 104,090 |
| **RESULTS** | | | | | | |
| Segment results | 7,540 | 1,206 | 1,097 | (1,547) | – | 8,296 |
| Unallocated corporate expenses | | | | | | (3,337) |
| Operating profit | | | | | | 4,959 |
| Finance costs | | | | | | (142) |
| Interest income | | | | | | 747 |
| Share of loss of the associate | | | | | | (88) |
| Impairment loss of investment in the associate | | | | | | (931) |
| Profit before tax | | | | | | 4,545 |
| Income tax expense | | | | | | (2,822) |
| Profit for the year | | | | | | 1,723 |
| **2016** | | | | | | |
| **REVENUE** | | | | | | |
| External sales | 59,104 | 21,090 | 22,060 | 967 | – | 103,221 |
| Inter-segment sales * | – | 402 | 76 | – | (478) | – |
| Total revenue | 59,104 | 21,492 | 22,136 | 967 | (478) | 103,221 |
| **RESULTS** | | | | | | |
| Segment results | 5,831 | 447 | 667 | (99) | – | 6,846 |
| Unallocated corporate expenses | | | | | | (3,756) |
| Operating profit | | | | | | 3,090 |
| Finance costs | | | | | | (89) |
| Interest income | | | | | | 758 |
| Share of loss of the associate | | | | | | (278) |
| Impairment loss of investment in the associate | | | | | | (360) |
| Impairment loss of available-for-sale investments | | | | | | (83) |
| Profit before tax | | | | | | 3,038 |
| Income tax expense | | | | | | (2,635) |
| Profit for the year | | | | | | 403 |

* Inter-segment sales are eliminated on consolidation.

## 34. SEGMENT INFORMATION (continued)

| | LCD backlight units US$'000 | Office automation US$'000 | LCD parts and accessories US$'000 | Others US$'000 | Eliminations US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **ASSETS** | | | | | | |
| Segment assets | 42,417 | 17,612 | 23,078 | 1,539 | (105) | 84,541 |
| Unallocated assets | | | | | | 4,002 |
| Consolidated total assets | | | | | | 88,543 |
| **LIABILITIES** | | | | | | |
| Segment liabilities | 7,928 | 3,715 | 3,936 | 350 | (105) | 15,824 |
| Bank borrowings and finance leases | | | | | | 9,749 |
| Unallocated liabilities | | | | | | 2,053 |
| Consolidated total liabilities | | | | | | 27,626 |
| **OTHER INFORMATION** | | | | | | |
| Capital expenditure | 728 | 248 | 91 | 1 | – | 1,068 |
| Depreciation of property, plant and equipment | 571 | 331 | 411 | 11 | – | 1,324 |
| Increase/(decrease) in provision for inventories | 49 | 16 | (587) | 67 | – | (455) |
| **2016** | | | | | | |
| **ASSETS** | | | | | | |
| Segment assets | 37,756 | 14,107 | 24,849 | 1,382 | (63) | 78,031 |
| Unallocated assets | | | | | | 5,495 |
| Consolidated total assets | | | | | | 83,526 |
| **LIABILITIES** | | | | | | |
| Segment liabilities | 8,272 | 3,372 | 3,500 | 240 | (63) | 15,321 |
| Bank borrowings and finance leases | | | | | | 6,095 |
| Unallocated liabilities | | | | | | 1,798 |
| Consolidated total liabilities | | | | | | 23,214 |
| **OTHER INFORMATION** | | | | | | |
| Capital expenditure | 363 | 47 | 298 | 124 | – | 832 |
| Depreciation of property, plant and equipment | 764 | 353 | 668 | 5 | – | 1,790 |
| Increase/(decrease) in provision for inventories | (647) | 16 | 114 | – | – | (517) |

## 34. SEGMENT INFORMATION (continued)

### Geographical information

Revenue and non-current asset information based on the geographical locations of external customers and assets respectively are as follows:

| | Revenue from external customers | | Carrying amount of non–current assets** | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Hong Kong | 19,304 | 21,000 | 251 | 202 |
| PRC | 74,946 | 70,140 | 4,655 | 5,115 |
| Japan | 9,598 | 11,969 | 2,157 | 2,157 |
| Others | 242 | 112 | – | – |
| | 104,090 | 103,221 | 7,063 | 7,474 |

** Non-current assets as at 31 December 2017 and 2016 mainly comprise property, plant and equipment and rental deposits as presented in consolidated statement of financial position.

### Information about a major customer

Revenue from one major customer accounted for 65.8% (2016: 71.8%) of the total revenue, arising from sales with all segments.

## 35. DIVIDENDS

| | Group and Company | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 |
| **Declared and paid during the financial year:** | | |
| *Dividends on ordinary shares:* | | |
| Final exempt dividend for 2016: US 0.5 cent (2016: US 0.7 cent per share @ US$0.02 each*) per share @ US$0.04 each | 1,149 | 3,324 |
| Interim exempt dividend for 2017: US 0.5 cent (2016: US 0.2 cent per share @ US$0.04 each) per share @ US$0.04 each | 1,149 | 475 |
| | 2,298 | 3,799 |
| **Proposed but not recognised as a liability as at 31 December:** | | |
| *Estimated dividends on ordinary shares as at 31 December 2017, subject to shareholders' approval at the AGM:* | | |
| Final exempt dividend for 2017: US 0.7 cent (2016: US 0.5 cent per share @ US$0.04 each) per share @ US$0.04 each | 1,608 | 1,161 |

* On 26 August 2016, the Company consolidated every two (2) existing ordinary shares of par value of US$0.02 each in the authorised and issued capital of the Company into one (1) consolidated share of par value of US$0.04 each in the authorised and issued capital of the Company.

## 36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

**Changes in liabilities arising from financing activities**

| | Bank borrowings US$'000 | Finance leases US$'000 |
|---|---|---|
| At 1 January 2017 | 6,014 | 81 |
| Proceeds from bank borrowings | 104,995 | – |
| Repayment of bank borrowings | (101,410) | – |
| New finance lease | – | 107 |
| Repayment of obligations under finance leases | – | (91) |
| Foreign exchange movement | 53 | – |
| At 31 December 2017 | 9,652 | 97 |

## 37. EVENTS AFTER THE REPORTING PERIOD

(a) As announced on 5 January 2018, TM Hong Kong signed an acquisition agreement with Honorary Professor SHIMIZU Yoshiko in Kyorin University ("Professor Shimizu"), the spouse of late Honorary Professor SHIMIZU Nobuyoshi in Keio University, to acquire 95% equity interest in GSP Enterprise Inc. ("GSP") (the "Acquisition"), a limited liability company established in Japan and 100% owned by Professor Shimizu, at a total cash consideration of JPY14,250,000 (approximately US$126,000) on 31 December 2017. GSP's principal activity is the research and development of an antibodies library. Following the payment of the consideration on 5 January 2018, GSP has become a subsidiary of TM Hong Kong and an indirect subsidiary of the Company. The Acquisition was paid for in cash and entirely funded by internal resources. Further details are set out in the Company's announcement dated 5 January 2018.

(b) As announced on 19 January 2018, TM Hong Kong signed on 18 January 2018 a sale and purchase agreement to dispose of its entire equity interest in TM Pudong to a third party for a total cash consideration of RMB12,754,000 (approximately US$1,982,000). Further details are set out in the Company's announcement dated 19 January 2018.

## 38. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 29 March 2018.

# STATISTICS OF SHAREHOLDINGS

*As at 19 March 2018*

## DISTRIBUTION OF SHAREHOLDINGS

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | % | NO. OF SHARES | % |
|---|---|---|---|---|
| 1 - 99 | 12 | 0.76 | 554 | 0.00 |
| 100 - 1,000 | 313 | 19.73 | 232,555 | 0.10 |
| 1,001 - 10,000 | 493 | 31.08 | 3,046,300 | 1.33 |
| 10,001 - 1,000,000 | 749 | 47.23 | 56,307,800 | 24.52 |
| 1,000,001 AND ABOVE | 19 | 1.20 | 170,057,699 | 74.05 |
| **TOTAL** | **1,586** | **100.00** | **229,644,908** | **100.00** |

## TWENTY LARGEST SHAREHOLDERS

| NO. | NAME | NO. OF SHARES | % |
|---|---|---|---|
| 1 | MIKUNI CO., LIMITED | 95,500,000 | 41.59 |
| 2 | RHB SECURITIES SINGAPORE PTE. LTD. | 21,504,450 | 9.36 |
| 3 | DBS NOMINEES (PRIVATE) LIMITED | 15,763,950 | 6.86 |
| 4 | SBS NOMINEES PRIVATE LIMITED | 7,935,500 | 3.46 |
| 5 | OCBC SECURITIES PRIVATE LIMITED | 5,637,300 | 2.46 |
| 6 | DBS VICKERS SECURITIES (SINGAPORE) PTE. LTD. | 4,742,100 | 2.07 |
| 7 | NG HWEE KOON | 2,547,550 | 1.11 |
| 8 | UOB KAY HIAN PRIVATE LIMITED | 2,466,500 | 1.07 |
| 9 | CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD. | 1,716,729 | 0.75 |
| 10 | ABN AMRO CLEARING BANK N.V. | 1,532,550 | 0.67 |
| 11 | CHAN TECK FONG | 1,444,250 | 0.63 |
| 12 | HL BANK NOMINEES (SINGAPORE) PTE. LTD. | 1,249,200 | 0.54 |
| 13 | MAYBANK KIM ENG SECURITIES PTE. LTD. | 1,239,670 | 0.54 |
| 14 | RAFFLES NOMINEES (PTE) LIMITED | 1,201,750 | 0.52 |
| 15 | KHOR KIAN BENG | 1,180,000 | 0.51 |
| 16 | WONG KEE TOOT | 1,137,000 | 0.50 |
| 17 | LIM BUAN HUA | 1,111,850 | 0.48 |
| 18 | NG CHOR MENG | 1,105,850 | 0.48 |
| 19 | HSBC (SINGAPORE) NOMINEES PTE. LTD. | 1,041,500 | 0.45 |
| 20 | TEO CHENG TUAN DONALD | 1,000,000 | 0.44 |
| | **TOTAL** | **171,057,699** | **74.49** |

# STATISTICS OF SHAREHOLDINGS

*As at 19 March 2018*

| | | |
|---|---|---|
| Class of equity securities | : | Ordinary share |
| No. of equity securities (excluding treasury shares) | : | 229,644,908 |
| Voting rights | : | One vote per share |

As at 19 March 2018, the total number of treasury shares held is 22,532,202. The treasury shares as a percentage of the total number of issued shares excluding treasury shares is 9.81%.

## LIST OF SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

| | Direct Interest | % | Deemed Interest | % |
|---|---|---|---|---|
| Mikuni Co., Limited | 115,061,350(Note 1) | 50.10 | – | – |
| Yoshimi Kunikazu | – | – | 115,061,350(Note 2) | 50.10 |

**Notes:**

1. 19,561,350 shares owned are held through a nominee account.
2. Mr. Yoshimi Kunikazu is deemed interested in the shares held by Mikuni Co., Limited ("Mikuni") by virtue of his shareholdings in Mikuni.

## PUBLIC FLOAT

As at 19 March 2018, 48.46% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of SGX-ST.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of CDW Holding Limited (the "Company") will be held at Kallang Room, Holiday Inn Singapore Atrium, 317 Outram Road, Singapore 169075 on Monday, 30 April 2018 at 3.00 p.m. for the following purposes:

## AS ORDINARY BUSINESS

1. To receive and adopt the Report of the Directors and the Audited Financial Statements of the Company for the year ended 31 December 2017 together with the Independent Auditors' Report thereon. **(Resolution 1)**

2. To declare a final dividend of 0.7 US cents per ordinary share (tax not applicable) for the year ended 31 December 2017 (2016: Final dividend of 0.5 US cents per ordinary share (tax not applicable)). **(Resolution 2)**

3. To re-elect Mr. MITANI Masatoshi as Director of the Company, who is retiring under Bye-law 104 of the bye-laws of the Company and who, being eligible, offers himself for re-election as Director of the Company.

   *Mr. MITANI Masatoshi will, upon re-election as a Director of the Company, remain as Chairman of the Nominating Committee and a member of the Audit and Remuneration Committees and will be considered independent.* **(Resolution 3)**

4. To note the retirement of Mr. URANO Koichi who is retiring as Director of the Company under Bye-law 104 of the bye-laws of the Company and is not seeking re-election.

5. To approve the payment of Directors' fees up to SG$220,000 for the year ending 31 December 2018 (2017: SG$220,000). **(Resolution 4)**

6. To re-appoint Ernst & Young in Hong Kong as the Auditor of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 5)**

7. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

## AS SPECIAL BUSINESS

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

8. **Appointment of Director**

   That Mr. KATO Tomonori be and is hereby appointed as a Director of the Company pursuant to Bye-law 107(A) of the bye-laws of the Company.

   [See Explanatory Note (i)] **(Resolution 6)**

9. **Authority to issue shares**

That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "SGX-ST"), the Directors of the Company be empowered to

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

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

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-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 sub-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 (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(aa) new shares arising from the conversion or exercise of any convertible securities;

(bb) new shares arising from the exercise of share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and

(cc) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the bye-laws of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (ii)] **(Resolution 7)**

10. **Authority to issue shares under the CDW Employees' Share Option Scheme 2013**

That the Directors of the Company be authorised and empowered to allot and issue and/or deliver (including through the transfer of shares held in treasury by the Company) from time to time such number of fully paid-up ordinary shares as may be required to be allotted, issued and/or delivered pursuant to the exercise of options granted under the CDW Holding Share Option Scheme 2013 ("ESOS 2013") prior to its expiry but remain unexercised, provided that the total number of ordinary shares over which such options are granted, when added to the total number of ordinary shares issued and issuable or delivered and deliverable in respect of (a) all options granted under the ESOS 2013, and (b) all awards, shares and options granted under any other share option, share, incentive, performance scheme or restricted share plan implemented by the Company and for the time being in force, shall not exceed fifteen per centum (15%) of the number of all issued ordinary shares (excluding treasury shares and subsidiary holdings) of the Company on the day preceding such date, and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iii)] **(Resolution 8)**

By Order of the Board

Kenneth Leong
Company Secretary

Singapore
6 April 2018

**Explanatory Notes:**

(i) The Ordinary Resolution 6 in item 8 is to appoint Mr. KATO Tomonori as a Director of the Company pursuant to Bye-law 107(A) of the bye-laws of the Company. Mr. KATO Tomonori will be an Executive Director upon his appointment. Detailed information on Mr. KATO Tomonori can be found on page 28 under the "Corporate Governance Report" in the Annual Report.

(ii) The Ordinary Resolution 7 in item 9 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

# NOTICE OF ANNUAL GENERAL MEETING

(iii) Although the ESOS 2013 expires on 28 April 2018, outstanding options granted prior to that date subsist and remain exercisable pursuant to the Rules of ESOS 2013.

The Ordinary Resolution 8 in item 10 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is earlier, to allot and issue and/or deliver (including through the transfer of shares held in treasury by the Company) fully paid-up ordinary shares in the Company pursuant to the exercise of options granted under the ESOS 2013 prior to its expiry but remain unexercised. The total number of ordinary shares to be allotted, issued and/or delivered over which such options had been granted, when added to the total number of ordinary shares issued and issuable or delivered and deliverable in respect of (a) all options granted under the ESOS 2013, and (b) all awards, shares and options granted under any other share option, share, incentive, performance scheme or restricted share plan implemented by the Company and for the time being in force, shall not exceed fifteen per centum (15%) of the number of all issued ordinary shares (excluding treasury shares and subsidiary holdings) of the Company on the day preceding such date.

**Notes:**

1. A Member entitled to attend and vote at the Annual General Meeting (the “Meeting”) is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If a shareholder of the Company, being a Depositor whose name appears in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore) wishes to attend and vote at the Meeting, he must be shown to have shares entered against his name in the Depository Register, as certified by The Central Depository (Pte) Limited, at least forty-eight (48) hours before the time of the Meeting.

3. If a Depositor wishes to appoint a proxy(ies) to attend the Meeting, he must complete and deposit the Depositor Proxy Form at the office of the Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Limited, at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, at least forty-eight (48) hours before the time of the 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 (the “Meeting”) and/or any adjournment thereof, a Member of the Company or a Depositor, as the case may be (a) consents to the collection, use and disclosure of the Member’s or Depositor’s personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the “Purposes”), (b) warrants that where the Member or a Depositor discloses the personal data of the Member’s or Depositor’s proxy(ies) and/or representative(s) to the Company (or its agents), the Member or Depositor has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (c) agrees that the Member or Depositor will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the Member’s or Depositor’s breach of warranty.

CDW Holding Limited

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