Challenger

ANNUAL REPORT 2019

TABLE OF CONTENTS

CHIEF EXECUTIVE'S MESSAGE

> In view of global economic and geopolitical uncertainties, as well as the recent Covid-19 outbreak, the retail environment will remain challenging in 2020 for us. Therefore, we will prioritise enhancing our product offerings, as well as optimising operational efficiencies and productivity.

DEAR FELLOW STAKEHOLDERS,

FY2019 has been a challenging year for us. Net profit for the full year decreased by 10% to $17.7 million on the back of a slight increase in revenue of 3% to $329.6 million. Retail sales decreased during the year, worsened by a lack of festive season sales pick-up as seen from the weaker Q4 performance in 2019 compared to 2018. This decrease has been somewhat cushioned by stronger performance from corporate and tradeshow sales during 2019.

The slowdown in sales triggered us to make changes to and assess our retail concepts. Firstly, we expanded PIT.Money stores, growing our pre-owned IT business to four stores presently. On top of ranging in affordable used, demo and refurbished products, PIT.Money also carries brand new products at lower price points for shoppers looking for a more complete range. Secondly, we converted five existing Challenger Mini stores to Challenger Mobile concept stores. Challenger Mobile focuses on mobile phones, tablets, smaller notebooks and personal computers, as well as related accessories. Lastly, three new stores opened while two stores closed due to mall renovations during the year. We will continue to monitor performance and viability across our stores on an ongoing basis.

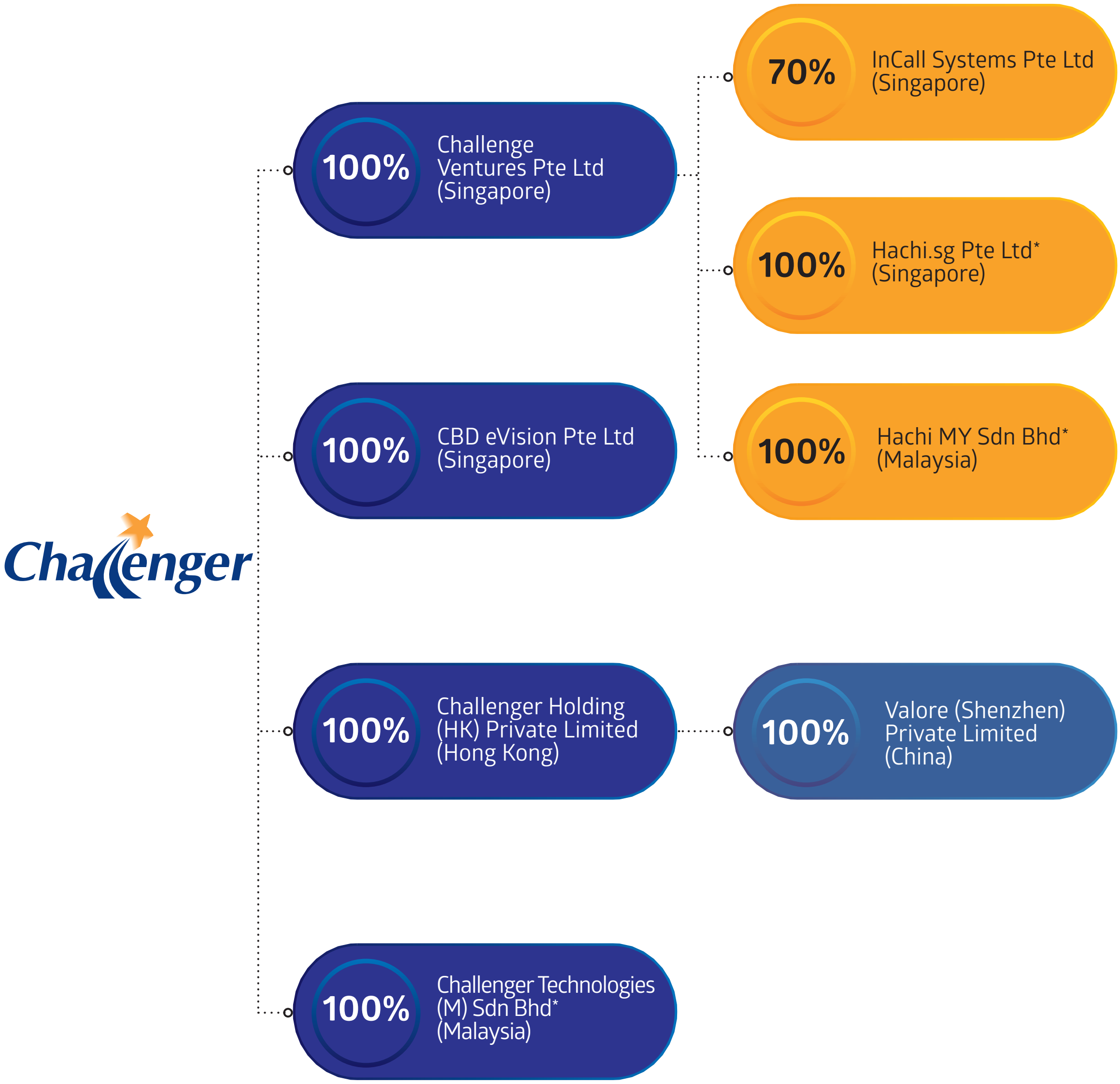
In view of global economic and geopolitical uncertainties, as well as the recent Covid-19 outbreak, the retail environment will remain challenging in 2020 for us. Therefore, we will prioritise enhancing our product offerings, as well as optimising operational efficiencies and productivity.

A final tax-exempt one-tier dividend of 1.5 cents per ordinary share has been proposed, subject to shareholders' approval during the upcoming Annual General Meeting.

I would like to thank my fellow directors, management team and all employees for their hard work and commitment to the Company. In addition, I appreciate the unwavering support rendered to us by shareholders, as well as business partners for their strategic cooperation with various businesses within the Group.

MR LOO LEONG THYE

GROUP STRUCTURE



* Dormant

PROFILE OF BOARD OF DIRECTORS

MR LOO LEONG THYE
Executive Director and Chief Executive Officer

He is responsible for the overall management of our Group. He also charts our corporate directions, strategies and policies. He has over 35 years of experience in the IT industry. He grew the business operations of our Group in 1982 from a sole proprietorship to its present scale. In 2011, he received the Best Chief Executive Officer Award (listed companies with less than $300 million in market capitalisation) from Singapore Corporate Awards, organised by The Business Times and supported by the Singapore Exchange. He holds a Graduate Diploma in Marketing Management and Diploma in Management Studies from the Singapore Institute of Management. He also holds an Industrial Technician Certificate from the Singapore Polytechnic and Full Technological Certificate from the City & Guilds of London Institute.

MR TAN WEE KO
Executive Director and Chief Financial Officer

He joined the Group in May 2005 and was appointed as an Executive Director on 30 April 2013. He oversees human resources, business development, accounting, financial and funding requirements of the Group. He is a Fellow Chartered Accountant of Singapore with the Institute of Singapore Chartered Accountants and a Fellow Certified Practising Accountant with the CPA Australia. He has a Master of Business Administration from the University of Adelaide and a Bachelor degree in Accountancy from the Nanyang Technological University.

MR TAN HAN BENG
Lead Independent Director

He is a Chartered Accountant (Singapore) with more than 20 years of professional financial experience. He is currently a Senior Vice President, Corporate Finance at UOB Kay Hian Pte Ltd. He is a Registered Professional licensed by the Singapore Exchange and also holds a Capital Markets Financial Advisory Services license issued by the Monetary Authority of Singapore. Han Beng was also with a Big Four accounting firm where he performed and led numerous financial, internal and special audit engagements.

MS TAN CHAY BOON
Independent Director

She has more than 30 years of working experience in the IT and fast-moving consumer goods industries covering Singapore, Asia Pacific and global regions. She had held several senior positions in multinational corporations including Managing Director at SAP Asia Pte Ltd and Vice President for Enterprise Group (South East Asia) at Hewlett Packard. In her 21-year tenure with Hewlett Packard, she was involved in several management roles in charge of consumer, small medium business and enterprise segments. Currently, she provides consulting on a part time basis. She has a Master of Business Administration from University of Dubuque, Iowa. She also holds a Bachelor degree with a dual major in Logistics/ Transportation and International Business, and a minor in Industrial Psychology from Ohio State University, Ohio.

MR MAX NG CHEE WENG
Independent Director

He is the Managing Director of Gateway Law Corporation, a regional intellectual property and commercial law practice, headquartered in Singapore and with people and offices across ASEAN including in Malaysia, Philippines, Vietnam and Hong Kong. He specialises in intellectual property, fintech, data protection and privacy laws, and is also an Associate Mediator with the Singapore Mediation Centre. Max is also a Fellow with the Singapore Institute of Arbitrators and the Asian Institute of Alternative Dispute Resolution, an associate member with the Chartered Institute of Arbitrators. He also sits on the panel of arbitrators of the Asian International Arbitration Centre and the Intellectual Property Law Panel of the Singapore International Arbitration Centre. He is also a Commissioner for Oaths and a Notary Public, and a member of the board diversity committee of the Singapore Institute of Directors.

He is listed as a leading lawyer in numerous publications such as Chambers Asia-Pacific, Legal 500, AsiaLaw Leading Lawyers and The International Who's Who of Business Lawyers.

PROFILE OF KEY MANAGEMENT

MS LOO PEI FEN
Group Chief Marketing Officer

She first joined the Group in January 2004 and handles the marketing and communications portfolio across the Group and its subsidiaries, focusing on ValueClub and Hachi.tech. She has a Master of Marketing from the University of Newcastle and a Bachelor of Arts from the University of Southern California.

MR WOON YOON SIONG
Group Chief Technology Officer

He joined the Group in September 2011 and oversees the IT Infrastructure and software systems. He holds a Master of Science in Computer & Information Sciences from the National University of Singapore and has over 30 years of experience in IT systems. He is instrumental in the development of the Group's Enterprise Resource Planning and Point of Sales systems as well as the online marketplace, Hachi.tech.

MR NG KIAN TECK
Senior Director – Special Projects

He is in charge of the productivity and efficiency functions across the Group. He joined the Group in 1996 and has over 20 years of experience in the IT industry. He holds a Bachelor of Science in Business Administration from the California State University, Los Angeles.

MR SEAH CHIN TIONG
Managing Director – InCall Systems Pte Ltd

In 2001, he started InCall Systems, an Outsourced Business Service Provider which offers end-to-end integrated marketing solutions. He is responsible for the overall management and the daily operations of our database, call centre and direct marketing business. With more than 30 years of experience in the IT industry, he brings a dynamic and unique blend of technology experience and business expertise to the Company. He holds a Bachelor of Business Administration from the National University of Singapore and a Graduate Diploma in Systems Analysis from the Institute of Systems Science.

MR YONG KIM HON
General Manager – Merchandising, Corporate Sales, Inventory Control & Logistics

He is in charge of merchandising, corporate sales, inventory control and logistic of the Singapore retail operations. He joined the Group in 2003 and has over 15 years of experience in the IT industry. He holds a Bachelor degree of Computer and Communication Systems Engineering from Universiti Putra Malaysia.

RETAIL FOOTPRINT

CHALLENGER FLAGSHIP STORE

Bugis Junction
200 Victoria Street
#B1-26 Bugis Junction
Singapore 188021

CHALLENGER SUPERSTORE

313 @ Somerset
313 Orchard Road
#04-01/02 313@Somerset
Singapore 238895

Ang Mo Kio Hub
53 Ang Mo Kio Avenue 3
#02-09 to 14 Ang Mo Kio Hub
Singapore 569933

Bugis Junction
200 Victoria Street
#03-10E Bugis Junction
Singapore 188021

Bedok Point
799 New Upper Changi Road
#B1-05/09 Bedok Point
Singapore 467351

Causeway Point
1 Woodlands Square
#04-06/07 Causeway Point
Singapore 738099

Changi City Point
5 Changi Business Park Central 1
#01-56/57/58/59
Changi City Point
Singapore 486038

The Clementi Mall
3155 Commonwealth
Avenue West
#04-56/57/58/59/60
The Clementi Mall
Singapore 129588

Compass One
1 Sengkang Square
#03-17 Compass One
Singapore 545078

IMM
2 Jurong East Street 21
#02-42 IMM Building
Singapore 609601

JEM
50 Jurong Gateway Road
#04-01 JEM
Singapore 608549

Parkway Parade
80 Marine Parade Road
#04-01 Parkway Parade
Singapore 449269

Plaza Singapura
68 Orchard Road
#04-12/12A Plaza
Singapura
Singapore 238839

Raffles City
252 North Bridge Road
#03-22/23 Raffles
City Shopping
Centre Singapore
179103

Jurong Point
63 Jurong West Central 3
#B1-94/95/96
Jurong Point Shopping Centre
Singapore 648331

Lot One
21 Choa Chu Kang Avenue 4
#03-05 to 08A Lot One
Singapore 689812

nex
23 Serangoon Central
#04-33/34 nex
Singapore 556083

Northpoint
930 Yishun Avenue 2
#03-08 to 10
Northpoint City
Singapore 769098

Sun Plaza
30 Sembawang Drive
#02-06 Sun Plaza
Singapore 757713

Suntec City Mall
3 Temasek Boulevard
#02-721 Suntec City Mall
Singapore 038983

Tampines 1
10 Tampines Central 1
#04-24/25 Tampines 1
Singapore 529536

Tiong Bahru Plaza
302 Tiong Bahru Road
#03-114 Tiong Bahru Plaza
Singapore 168732

RETAIL FOOTPRINT

VivoCity
1 HarbourFront Walk
#02-34/35 VivoCity
Singapore 098585

Jewel Changi Airport
78 Airport Boulevard
#B2-214 & 215
Singapore 819666

Paya Lebar Quarter
10 Paya Lebar Road
#04-01
Singapore 409057

CHALLENGER MINI

City Square Mall
180 Kitchener Road
#B1-11A/12 City Square Mall
Singapore 208539

White Sands
1 Pasir Ris Central Street 3
#03-07/08 White Sands
Singapore 518457

Junction 8 Shopping Centre
9 Bishan Place
#04-03A Junction 8
Shopping Centre
Singapore 579837

Bukit Panjang Plaza
1 Jelebu Road
#02-43/44 Bukit Panjang Plaza
Singapore 677743

Tampines Mall
4 Tampines Central 5
#04-06/07 Tampines Mall
Singapore 529510

Waterway Point
83 Punggol Central
#B1-26 Waterway Point
Singapore 828761

PIT.Money

JCube
2 Jurong East Central 1
#01-24/25 JCube
Singapore 609731

Aperia Mall
12 Kallang Avenue
#01-05 Aperia
Singapore 339511

Hougang Mall
90 Hougang Avenue 10
#04-15 Hougang Mall
Singapore 538766

Eastpoint Mall
3 Simei Street 6
#B1-08 Eastpoint Mall
Singapore 528833

CHALLENGER MOBILE

Festive Mall
1 Tampines Walk
#01-94/95 Our Tampines Hub
Singapore 528523

Westgate
3 Gateway Drive
#03-33 Westgate
Singapore 608532

West Coast Plaza
154 West Coast Road
#01-03
Singapore 127371

The Seletar Mall
33 Sengkang West Avenue
#03-24 The Seletar Mall
Singapore 797653

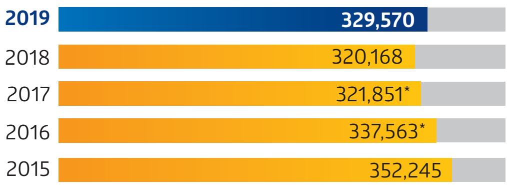
Yew Tee Point
21 Choa Chu Kang North 6
#B1-12/13 Yew Tee Point
Singapore 689578

MUSICA BOUTIQUE

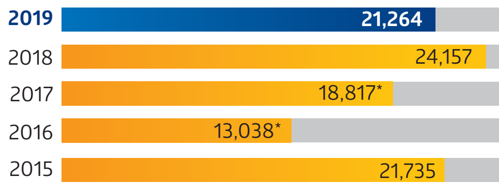
ION Orchard
2 Orchard Turn
#04-26 ION Orchard
Singapore 238801

GROUP 5-YEAR FINANCIAL HIGHLIGHTS

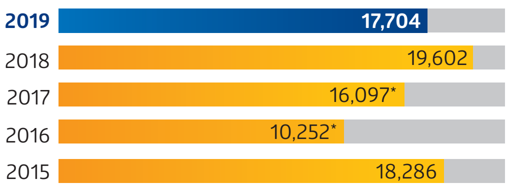
REVENUE ($'000)



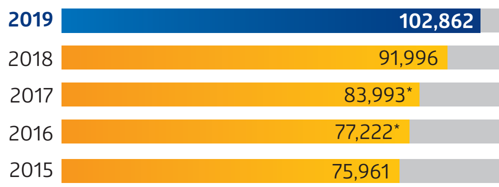
PROFIT BEFORE TAX ($'000)



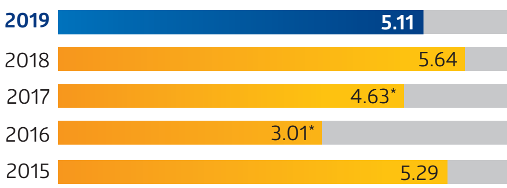
PROFIT AFTER TAX ($'000)



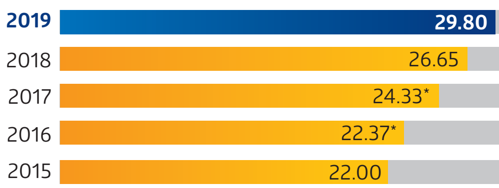
SHAREHOLDERS' FUNDS ($'000)



EARNINGS PER SHARE (cents)



NET TANGIBLE ASSETS PER SHARE (cents)



	FY2019	FY2018	FY2017*	FY2016*	FY2015
KEY FINANCIAL RATIOS					
Net Profit Margin (%)	**5.4**	6.1	5.0	3.0	5.2
Inventory Turnover (days)	**49**	55	49	51	49
Trade Receivable Turnover (days)	**7**	12	9	5	6
Return on Equity (%)	**17**	21	19	13	24
Quick Ratio (times)	**2.07**	2.20	2.18	1.82	1.73
Current Ratio (times)	**2.86**	3.26	3.14	2.89	2.98

* Restated

GROUP OPERATIONS REVIEW

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	GROUP			
	31.12.2019 S$'000	**31.12.2018** S$'000	**Increase/ (Decrease)** S$'000	**Remarks**
REVENUE	329,570	320,168	9,402	Revenue increase mainly supported by stronger revenue contribution from corporate and tradeshow sales, partially offset by weaker performance from retail operations.
Changes in inventories	(3,300)	4,431	N.M.	Cost of goods purchased net off changes in inventories increase in line with higher revenue recorded in FY2019.
Cost of goods purchased	(254,795)	(253,128)	1,667	
Other consumables used	(240)	(159)	81	
OTHER ITEMS OF INCOME				
Interest Income	1,272	802	470	Increase mainly due to higher receipt of interest income from fixed deposits placed with banks.
Other Gains	263	474	(211)	Decrease mainly due to lower receipts of grants from Government.
OTHER ITEMS OF EXPENSE				
Depreciation expense	(2,207)	(2,768)	(561)	Decrease mainly due to fully depreciated plant and equipment.
Employee Benefits Expense	(24,293)	(23,430)	863	Increase mainly due to higher manpower costs and operating expenses to support business operations as well as new store openings.
Other Expenses	(24,572)	(21,913)	2,659	
Other Losses	(434)	(320)	114	Increase mainly due to higher inventories written off for third parties and house brand products.
PROFIT BEFORE TAX	21,264	24,157	(2,893)	
Income Tax Expenses	(3,560)	(4,555)	(995)	
PROFIT NET OF TAX	17,704	19,602	(1,898)	

N.M. = not meaningful

GROUP OPERATIONS REVIEW

STATEMENT OF FINANCIAL POSITION

	GROUP			
	31.12.2019 S$'000	31.12.2018 S$'000	Increase/ (Decrease) S$'000	Remarks
ASSETS				
NON-CURRENT ASSETS				
Other Financial Assets	5,449	6,102	(653)	Decrease due to redemption of a corporate bond.
Property, Plant and Equipment	7,252	7,573	(321)	Decrease due to depreciation expense and fully depreciated assets, partially offset by acquisition of equipment and renovation for new retail stores.
Rights-of-use Assets	23,473	–	N.M.	Adoption of SFRS(I) 16 Leases with effect from 1 January 2019.
Total Non-Current Assets	36,174	13,675	22,499	
CURRENT ASSETS				
Inventories	34,491	37,939	(3,448)	Decrease as a result of inventory consolidation measures.
Cash and Cash Equivalents	77,890	63,240	14,650	
Trade and Other Receivables	6,722	10,138	(3,416)	Decrease mainly due to lower receivables from suppliers and credit card companies.
Other Assets	5,351	5,460	(109)	
Other Financial Assets	765	503	262	
Total Current Assets	125,219	117,280	7,939	
Total Assets	161,393	130,955	30,438	

GROUP OPERATIONS REVIEW

STATEMENT OF FINANCIAL POSITION

	GROUP			
	31.12.2019 S$'000	31.12.2018 S$'000	Increase/ (Decrease) S$'000	Remarks
EQUITY AND LIABILITIES				
EQUITY				
Share Capital	18,775	18,775	–	
Retained Earnings	84,135	73,415	10,720	
Other Reserves	(48)	(194)	(146)	
Total Shareholders' Funds	102,862	91,996	10,866	
Non-Controlling Interests	417	337	80	
Total Equity	103,279	92,333	10,946	
NON-CURRENT LIABILITIES				
Deferred Tax Liabilities	17	17	–	
Lease Liabilities	12,284	–	N.M.	Adoption of SFRS(I) 16 Leases with effect from 1 January 2019.
Other Liabilities	2,035	2,759	(724)	Decrease due to lower membership administration fee.
Total Non-Current Liabilities	14,336	2,776	11,560	
CURRENT LIABILITIES				
Trade and Other Payables	19,988	21,569	(1,581)	Decrease mainly due to lesser purchases and early settlement of trade payables.
Provisions	2,067	1,955	112	
Income Tax Payable	4,167	4,587	(420)	
Lease Liabilities	11,403	–	N.M.	Adoption of SFRS(I) 16 Leases with effect from 1 January 2019.
Other Liabilities	6,153	7,735	(1,582)	Decrease due to lower membership administration fee.
Total Current Liabilities	43,778	35,846	7,932	
Total Liabilities	58,114	38,622	19,492	
Total Equity and Liabilities	161,393	130,955	30,438	

N.M. = not meaningful

CORPORATE INFORMATION

BOARD OF DIRECTORS

LOO LEONG THYE
Executive Director and Chief Executive Officer

TAN WEE KO
Executive Director and Chief Financial Officer

TAN HAN BENG
Lead Independent Director

MAX NG CHEE WENG
Independent Director

TAN CHAY BOON
Independent Director

AUDIT COMMITTEE

TAN HAN BENG Chairman
MAX NG CHEE WENG
TAN CHAY BOON

NOMINATING COMMITTEE

MAX NG CHEE WENG Chairman
TAN HAN BENG
TAN CHAY BOON

REMUNERATION COMMITTEE

MAX NG CHEE WENG Chairman
TAN HAN BENG
TAN CHAY BOON

COMPANY SECRETARY

CHIA FOON YEOW

REGISTERED OFFICE

1 Ubi Link
Challenger TecHub
Singapore 408553
Tel: (65) 6318 9800
Fax: (65) 6318 9801
Email: ir@challenger.sg
Company Registration No.: 198400182K

SHARE REGISTRAR AND SHARE TRANSFER OFFICE

BOARDROOM CORPORATE &
ADVISORY SERVICES PTE. LTD.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

AUDITORS

RSM CHIO LIM LLP
Public Accountants and
Chartered Accountants
(a member of RSM International)
8 Wilkie Road
#03-08 Wilkie Edge
Singapore 228095

Partner-in-charge: Woo E-Sah
(effective from financial year ended
31 December 2016)

PRINCIPAL BANKERS

UNITED OVERSEAS BANK LIMITED

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED

DBS BANK LIMITED

SUSTAINABILITY REPORT

1. BOARD STATEMENT

We reaffirm our commitment to sustainability with the publication of our sustainability report ("Report"). For this Report, we provide insights into the way we do business, while highlighting our environmental, social, governance ("ESG") factors and economic performance.

Whilst mindful of our profit oriented objective, we are committed to strike a balance between growth, profit, governance, environment, the development of our people and well-being of our communities to secure a long term future of our Group. This commitment is reflected in our sustainable business strategy and the material ESG factors which are shown in this Report.

A sustainability policy ("SR Policy") covering our sustainability strategies, reporting structure, materiality assessment and processes in identifying and monitoring material ESG factors has been put in place and serves as a point of reference in the conduct of our sustainability reporting. Under this SR Policy, we will continue to monitor, review and update our material ESG factors from time to time, taking into account the feedback that we receive from our engagement with our stakeholders, organisational and external developments.

A summary of our sustainability performance in FY2019 is as follows:

<u>Energy conservation</u> Electricity usage is 9 kWh per square foot	<u>Optimal waste management</u> 37,669 ink cartridges and toner collected for recycling	<u>Equality and diversity in the workplace</u> • 37% of all employees and 39% of managers are females • One female representation on the Board of Directors • 24% of all employees are at least 40 years old
<u>Commitment to quality and product safety practices</u> No reported incidents of substandard products resulting in electrical accidents to our customers	<u>Commitment to customer privacy</u> No reported incidents concerning breaches of customer privacy	<u>Employee training and development</u> Training programs ranging from soft skill training to product knowledge courses have been implemented to equip our retail employees with the right capabilities
<u>Sustainable business performance</u> • Recorded revenue of SGD 329.6 million • Generated net profit of SGD 17.7 million • Declared a final tax-exempt dividend of 1.50 Singapore cents per share	<u>Robust corporate governance framework</u> • No reported incidents of serious offence • Singapore Governance and Transparency Index ("SGTI") score assessed by National University of Singapore Business School is 63	

SUSTAINABILITY REPORT

2. REPORTING FRAMEWORK

This report has been prepared in accordance with the Global Reporting Initiative ("GRI") Standards: Core option and published in pursuant to Singapore Exchange Securities Trading Limited ("SGX-ST") listing rules 711(A) and 711(B). We have chosen to report using the GRI standards: Core option as it is an internationally recognised reporting framework.

3. REPORTING PERIOD AND SCOPE

This Report is applicable for our financial year from 1 January to 31 December 2019 ("FY2019" or "reporting period"). A sustainability report will be published annually thereafter in accordance with our SR Policy.

This Report covers the key operating entities within our Group which contributed more than 90% (FY2018: more than 90%) of our total revenue for the reporting period.

4. FEEDBACK

We welcome feedback from all stakeholders on this Report. You may send related questions, comments, suggestions or feedback to our investor relations email account: ir@challenger.sg.

5. STAKEHOLDER ENGAGEMENT

Our efforts on sustainability are focused on creating sustainable value for our key stakeholders, which comprise communities, customers, employees, regulators, shareholders and suppliers. Key stakeholders are determined for each material factor identified, based on the extent of which they can affect or are affected by our operations.

We actively engage our key stakeholders through the following channels:

S/N	Key stakeholder	Engagement channel	Frequency of engagement	Key concern
1	**Community**	We have introduced various initiatives to promote environmental sustainability by encouraging energy conservation, recycling and waste management through daily green efforts in local communities.	Ongoing	• Social inclusion • Environmental initiatives
2	**Customer**	Customers are encouraged to provide their feedback through channels such as Company's website, social media and call-in or walk-in. Feedback obtained is reviewed and relevant follow-up actions are taken to improve customer satisfaction.	Ongoing	• Product diversity as well as customer service

SUSTAINABILITY REPORT

S/N	Key stakeholder	Engagement channel	Frequency of engagement	Key concern
3	**Employee**	Senior management holds regular communication sessions with employees for effective flow of information and alignment of business goals across all levels of workforce. Channels used include emails, online feedback and regular staff evaluation sessions where employees can pose questions in person.	Ongoing	• Equal employment Opportunity • Career development and training opportunities • Job security • Remuneration
4	**Regulator**	We participate in consultations and briefings organised by key regulatory bodies such as Singapore Stock Exchange so as to furnish feedback on proposed regulatory changes that may impact the company's business and operations.	Ongoing	• Corporate governance
5	**Shareholder**	We convey timely, full and credible information to shareholders through announcements on SGXNET, Company's website (http://www.challengerasia.com), Annual General Meetings, annual reports, and other channels such as business publications and investors' relation events.	Annually	• Sustainable business performance • Market valuation • Corporate governance
6	**Vendor**	We work closely with suppliers to ensure smooth delivery of products. In general, new suppliers are screened in accordance with the purchasing policies and existing suppliers are assessed by respective work teams based on specified criteria. The feedback is furnished regularly by the Merchandising Department to suppliers to ensure standards of products or services delivered.	Ongoing	• Ability to distribute products • Maintain and expand brand presence • Maximise end customers' satisfaction

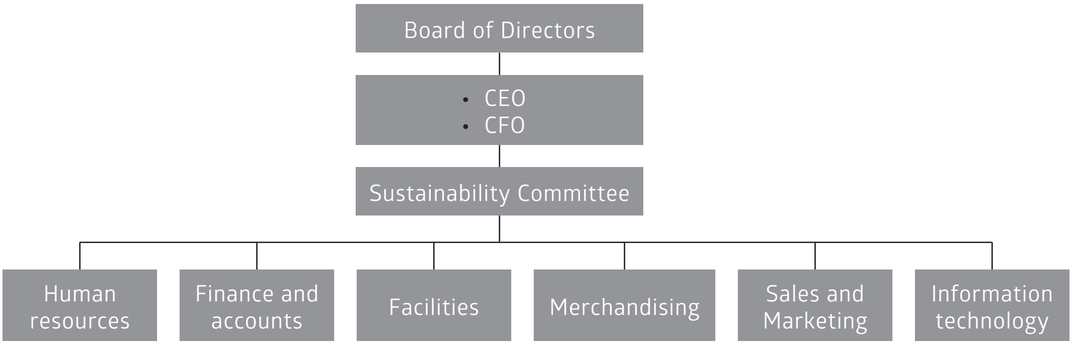
Through the above channels, we seek to understand the views of key stakeholders, communicate effectively with them and respond to their concerns.

SUSTAINABILITY REPORT

6. POLICY, PRACTICE AND PERFORMANCE REPORTING

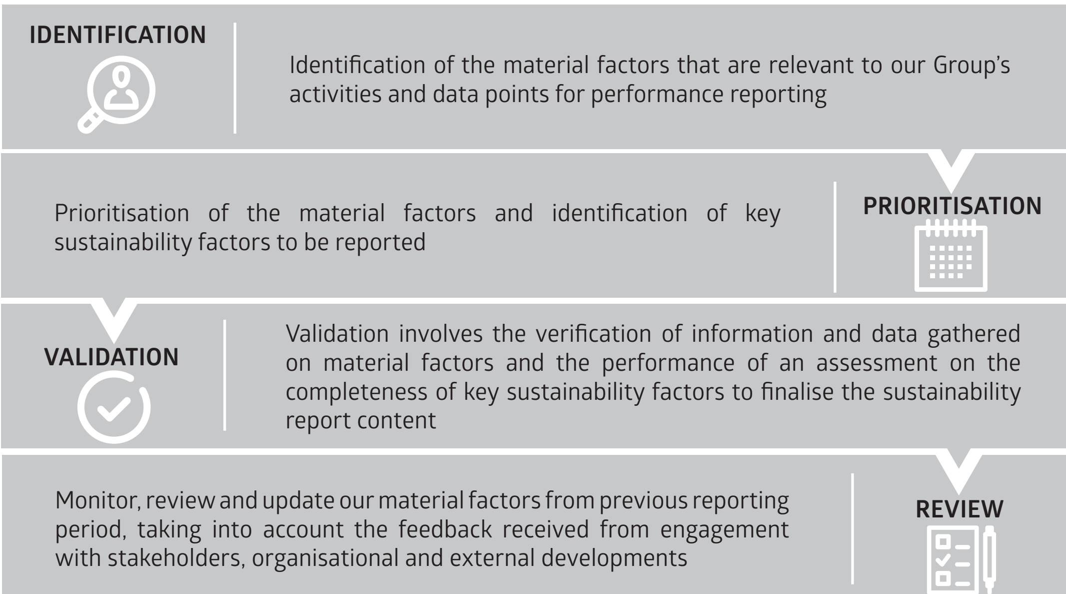
6.1 Reporting structure

Our sustainability strategy is developed and directed by the senior management in consultation with the Board of Directors. Our Sustainability Committee, which includes senior management executives and key managers from various functions, is led by our Group's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), and is tasked to develop the sustainability strategy, review our material impacts, consider stakeholder priorities and set goals and targets, as well as collect, verify, monitor and report performance data for this Report.



6.2 Sustainability reporting processes

Under our SR policy, our sustainability process begins with the identification of relevant factors. Relevant factors are then prioritised as material factors which are then validated. The end result of this process is a list of material factors disclosed in this Report. Processes involved are as shown in the chart below:



SUSTAINABILITY REPORT

6.3 Materiality assessment

Under our SR Policy, each sustainability factor is assigned a reporting priority that determines the actions required as illustrated in the table below:

Reporting priority	Description	Criteria
I	High	Factors with high reporting priority are reported on in detail.
II	Medium	Factors with medium reporting priority are considered for inclusion in the Report. They may not be included in this Report if not material.
III	Low	Factors with low reporting priority may be reported to fulfil regulatory or other reporting requirements. They are not included in this Report if not material.

The reporting priority is supported by a material factor matrix which considers the level of concern to external stakeholders and potential impact on business.

6.4 Performance tracking and reporting

We track the progress of our material factors by identifying the relevant data points, monitoring and measuring them. In addition, we set performance targets that are aligned with our strategy to ensure that we remain focused in our path to sustainability. We shall consistently enhance our performance-monitoring processes and improve our data capture systems.

7 MATERIAL FACTORS

Our materiality assessment performed for FY2019 involved our Group's Senior Management in identifying sustainability factors deemed material to our businesses and our stakeholders so as to allow us to channel our resources judiciously to create sustainability value for our stakeholders.

Presented below is a list of material sustainability factors and material factor matrix applicable to our Group:

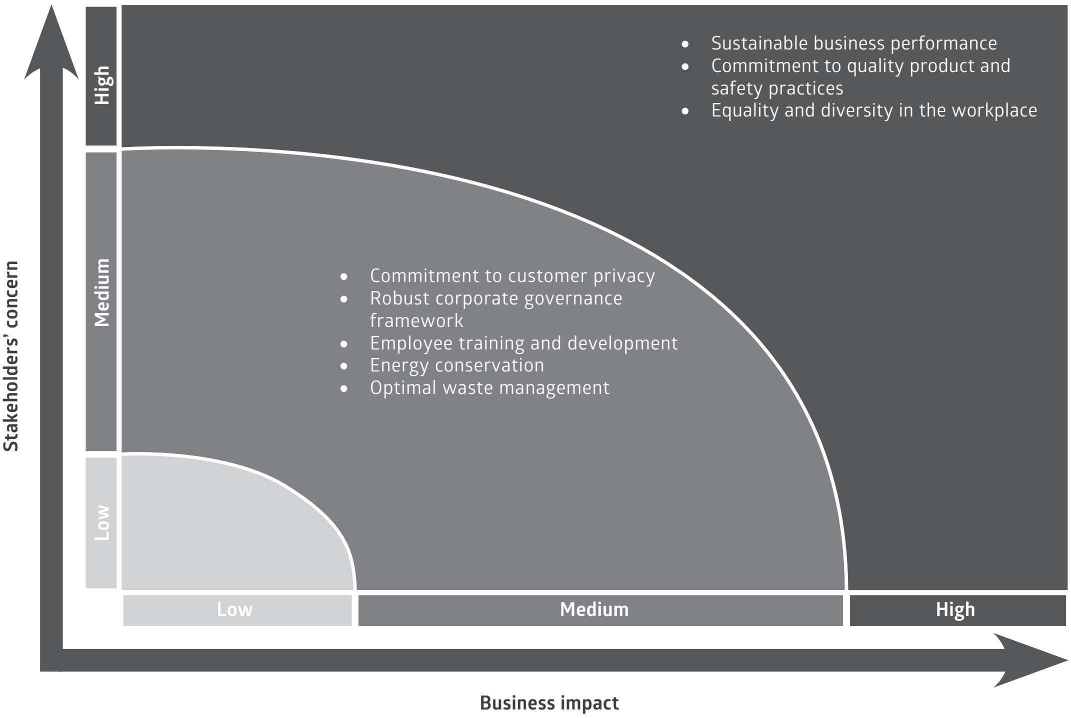
<u>List of material sustainability factors</u>

S/N	Material factor	Key stakeholder	Reporting priority
Environmental			
1	Energy conservation	• Community • Shareholder	II
2	Optimal waste management	• Community • Customer • Shareholder	II
Social			
3	Equality and diversity in the workplace	Employee	I

SUSTAINABILITY REPORT

S/N	Material factor	Key stakeholder	Reporting priority
4	Commitment to quality and product safety practices	Customer	I
5	Commitment to customer privacy	Customer	II
6	Employee training and development	Employee	II
Economic			
7	Sustainable business performance	Shareholder	I
Governance			
8	Robust corporate governance framework	• Regulator Shareholder	II

Material factor matrix



We will update the material factors on an annual basis to reflect changes in business operations, environment, stakeholder's feedback and sustainability trends. The details of each material sustainability factor are presented as follows:

SUSTAINABILITY REPORT

7.1 Energy conservation

We are committed to responsible usage of energy resources that results in lesser carbon emissions which in turn helps to preserve the environment that we operate in and also reduces our costs, thus enhancing returns to shareholders.

To run our operations, we rely on electricity for lighting, cooling purposes and running office equipment. During the reporting period, the annual electricity usage for our office premises and retail stores is 9 kWh (FY2018: 8.6 kWh) per square foot.

Electricity conservation initiatives adopted by us include the following:

- 100% of our retail stores optimise electricity efficiency through the use of high-efficiency lighting.
- Electricity consumption trends in retail stores are regularly reviewed. Corrective actions are taken when higher-than-normal consumption patterns are observed.

Target for FY2019	Performance in FY2019	Target for FY2020
Maintain or reduce energy consumption rate	No material changes in our energy consumption rate	Maintain or reduce energy consumption rate

7.2 Optimal waste management

We are committed to manage and minimise the impact of our retail operations on the environment through reducing waste generated from the sale of products.

Key initiatives in waste minimisation and efficient material use include the following:

<u>Adopt environmentally friendly packaging design for Valore products</u>

We sell both third party products and house-brand products under the brand of Valore. Our efforts to optimise waste management is focused on our Valore products as we have more control in its design and use of packaging materials. For Valore products, packaging optimisation is a key focus of our efforts to minimise waste materials. Multiple factors related to packaging are considered when developing products for customers and they include design, material choice and carton volume. We are continuously looking for packaging options that are both cost efficient and have minimal impact on the environment, focusing on packaging designs that are thin, tight and light with biodegradable or recyclable materials.

<u>Proper disposal of packaging materials and recycling of used products and fixtures</u>

To be efficient in waste collection and disposal, we collaborate with mall operators and suppliers on various fronts as follows:

- With mall operators, packaging materials are disposed at designated dumping areas and collected by licensed collectors to enable proper treatment of waste materials.
- With printer ink cartridge suppliers, limited time promotions are organised to encourage customers to trade in their used ink cartridges and toners at selected retail stores. During the reporting period, more than 37,669 (FY2018: more than 17,835) ink cartridges and toners were collected for recycling purpose.
- Usable furniture and light bulbs from discontinued stores are reused at other stores.

SUSTAINABILITY REPORT

Move towards a paperless working environment

We constantly enhance our operating systems to move towards a paperless working environment. One such enhancement involves the deployment of an online portal for our purchasing process whereby only electronic version of purchasing related documents such as purchase orders and payment advices are issued.

Other measures taken to reduce paper consumption include the following:

- For the pick-up option that allows our customers to order online and pick up their purchases in store, customer could use an electronic version of authorisation letter to nominate a third party to collect goods ordered on their behalf.

- At all Challenger retail storefronts, digital displays are used to communicate promotional messages, reducing printed storage and ink consumption.

Target for FY2019	Performance in FY2019	Target for FY2020
Reduce the amount of waste generated	37,669 ink cartridges and toner collected for recycling, an improvement from the previous year	Reduce the amount of waste generated

7.3 Equality and diversity in the workplace

We are committed to provide a work environment for employees that fosters fairness, equity and respect for social and cultural diversity. The total number of full-time employees in our Group as at 31 December 2019 is 317 (FY2018: 339).

On gender diversity, we view diversity in the Board level as an essential element in supporting sustainable development and in relation to the gender diversity with one female representation in the Board of Directors. The percentage of female to total full-time employees and managers are 37% (FY2018: 38%) and 39% (FY2018: 39%) respectively as at 31 December 2019.

On age diversity, matured workers are valued for their experience, knowledge and skills. As at 31 December 2019, 24% (FY2018: 23%) of the workforce is at least 40 years old.

To promote equal opportunity, we established various related human resource practices as follows:

- A human resource policy is in place to select employees based on merit and competency.

- Staff recruitment advertisements do not state age, race, gender or religion preferences as requirement.

Target for FY2019	Performance in FY2019	Target for FY2020
Move towards a more balanced gender and age diversity ratio	We maintained our diversity ratios between FY2019 and FY 2018	Move towards a more balanced or maintain existing gender and age diversity ratios

SUSTAINABILITY REPORT

7.4 Commitment to quality and product safety practices

We take the health and safety of our customers seriously. Electrical products may pose a safety risk when used improperly or when standards are not met. We have a strict procurement policy that requires the procurement team to work closely with suppliers to ensure strict compliance with our procurement policy. Key measures taken on this front are as follows:

- New suppliers are evaluated in accordance with the procurement policy whilst existing suppliers are regularly assessed by respective work teams based on established criteria.

- Safety checks on products are performed by the quality control team when received. Samples selected for safety checks undergo stringent functionality checks and reliability testing.

- For products that fail the safety checks, further checks are performed internally upon supplier's repair or rectification.

- Feedback is constantly furnished by the procurement team to suppliers to make improvements. A supplier that does not improve will be disqualified.

We also ensure that products covered under the Consumer Protection (Safety Requirements) Registration Scheme (CPS Scheme) are certified with the applicable SAFETY mark before they are put on sale.

During the reporting period, there are no reported incidents of substandard products resulting in electrical accidents (FY2018: zero incident).

Target for FY2019	Performance in FY2019	Target for FY2020
Maintain zero incident of substandard products resulting in electrical accidents to our customers	No reported incidents of substandard products resulting in electrical accidents to our customers	Maintain zero incident of substandard products resulting in electrical accidents to our customers

7.5 Commitment to customer privacy

To stay connected with our customers, we have built a customer membership program for our retail and online businesses. To effectively operate this program and execute activities such as product launches, membership savings, discounts and other benefits, we collect personal data from our members. Data privacy of members is of paramount importance to us and we are committed to protect customer privacy and personal data.

In Singapore, we abide by the Personal Data Protection Act ("PDPA"), which comprises various rules governing collection, use, disclosure and care of personal. In line with our commitment to customer privacy and ensure the compliance with the PDPA, a Personal Data Protection Committee is set up and regular meetings are held to discuss emerging issues and regulation updates.

A personal data protection policy ("Privacy Policy") has also been implemented under the supervision of Personal Data Protection Policy Committee. The Privacy Policy specifies defined procedures on the collection, usage and disclosure of personal data. Our employees are granted access to the Privacy Policy and mandatory trainings related to handling of personal data are conducted for them.

SUSTAINABILITY REPORT

To further protect our members' privacy, members are encouraged to scan the unique QR code on their ValueClub app or key in login ID at the point of payment to identify themselves as members in order to enjoy member's privileges. This avoids the need for our members to present personally-identifiable information, such as an identity card, in a public area.

During the reporting period, there are no reported incidents concerning breaches of customer privacy and losses of customer data (FY2018: zero incident).

Target for FY2019	Performance in FY2019	Target for FY2020
Maintain zero incident of data breach	No reported incidents concerning breaches of customer privacy	Maintain zero incident of data breach

7.6 Employee training and development

We place a high priority on the competency development of our employees as we believe well trained employees are vital to the long term success of our business.

In order to provide employees with a clear and forward-looking career path with better prospects, we have introduced the following initiatives:

Systematic and comprehensive training programs

Given the nature of our business in the retail industry, retail employees play a vital role in contributing to the success of our business as they interact first-hand with customers and are also responsible for maintaining the physical appearance of our stores through handling displays and arranging inventories.

To equip our retail employees with the right capabilities, we have implemented various training programs ranging from soft skill training to product knowledge courses. Such programs also motivate them to maintain a high level of performance.

Robust performance appraisal system

Staff assessment serves as a platform to evaluate the performance of the employees and to discuss areas for improvement. It also encourages employees to take self-initiated enrichment actions to improve their current skillsets, which in turn helps to value-add to our business.

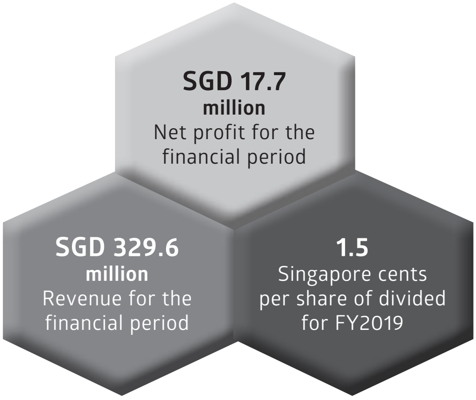
The retail operations are labour intensive requiring the services of a large number of part-time employees. In order to identify and duly recognise part-time employees who exhibit a high level of performance and enthusiasm, part-time employees are evaluated based on their performance and well-performing part-timers are selected to undergo further training programs that enable them to play a more significant role in the retail stores.

SUSTAINABILITY REPORT

Target for FY2019	Performance in FY2019	Target for FY2020
None[1]	Training programs ranging from soft skill training to product knowledge courses are in place to equip our retail employees with the right capabilities	Continuously identify opportunities to upskill workforce

7.7 Sustainable business performance

We believe in creating long-term economic value for shareholders by striking a balance between rewarding shareholders by way of consistent profits, dividend payments and maintaining a robust balance sheet with strong operating cash flows.



In FY2019, our Group recorded revenue of SGD 329.6 million (FY2018: SGD 320.2 million). Our Group generated SGD 17.7 million (FY2018: SGD 19.6 million) of net profit for the period attributable to our equity holders. A tax-exempt dividend of 1.5 Singapore cents per share was declared for the reporting period (FY2018: 3.1 Singapore cents per share).

Details of our Group's economic performance can be found in the financial contents and audited financial statements of this Annual Report.

Target for FY2019	Performance in FY2019	Target for FY2020
Maintain or improve our financial performance subject to market conditions whilst maintaining our dividend payout where practicable	Target met on financial performance, which has been maintained for FY2019. A lower tax-exempt dividend of 1.5 Singapore cents per share was declared for FY2019 in light of uncertain market outlook and business environment.	Maintain or improve our financial performance subject to market conditions

[1] Not applicable as this is a newly disclosed sustainability factor added in this Report.

SUSTAINABILITY REPORT

7.8 Robust corporate governance framework

We are committed to high standards of corporate governance and believe a high standard of corporate governance is integral in ensuring sustainability of our business as well as safeguarding shareholders' interests and maximising long-term shareholder's value.

We have implemented a whistle blowing policy to provide a mechanism for employees to raise concerns through accessible confidential disclosure channels about possible improprieties in matters of financial reporting and others. During the reporting period, there are no reported incidents of serious offence[2] (FY2018: zero incident).

We have put in place a risk management framework. We regularly assess and review our business and operational environment to better identify and manage emerging and strategic sustainability risks.

The overall SGTI score assessed by National University of Singapore Business School is 63 for year 2019 (FY2018: 64).

Refer to the Corporate Governance Report of the Annual Report for details for our corporate governance practices.

Target for FY2019	Performance in FY2019	Target for FY2020
Improve or maintain our SGTI score	• No reported incidents of serious offence • SGTI score assessed by National University of Singapore Business School is 63	• Maintain zero incident of serious offence to be reported • Improve or maintain our SGTI score

8. SUPPORTING THE UN SUSTAINABLE DEVELOPMENT GOALS

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals ("SDGs"), which form an urgent call for action by all countries – developed and developing – in a global partnership. We believe that everyone plays an important part in advancing sustainable development and in order to align our business objectives with the SDGs, we have identified a number of SDGs which we can contribute to through our business practices, products and services. The SDGs that we focus on and the related sustainability factors are as follows:

[2] A serious offence is defined as one that involves fraud or dishonesty amounting to not less than SGD 100,000 and punishable by imprisonment for a term of not less than 2 years which is being or has been committed against the company by officers or employees of the company.

SUSTAINABILITY REPORT

SDG		Our effort
4 QUALITY EDUCATION	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Section 7.6 Employee training and development We invest in training and development of our people to enhance our business competencies as well as overall productivity.
7 AFFORDABLE AND CLEAN ENERGY	Ensure access to affordable, reliable, sustainable and modern energy for all	Section 7.1 Energy conservation We maximise electricity conservation through high-efficiency lighting which in turn, helps to promote the efficient use of energy.
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Section 7.7 Sustainable business performance We contribute to economic growth through creating long-term economic value for our shareholders.
10 REDUCED INEQUALITIES	Reduce inequality within and among countries	Section 7.3 Equality and diversity in the workplace We ensure equal opportunity for all regardless of gender, age, nationality, ethnicity, or educational background.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Ensure sustainable consumption and production patterns	Section 7.2 Optimal waste management We contribute to the reduction of waste generation through recycling, reusing and reducing.

SUSTAINABILITY REPORT

SDG		Our effort
	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	Section 7.4 Commitment to quality and product safety practices We ensure our products meet necessary safety standards. Section 7.5 Commitment to consistent privacy We maintain commercially reasonable physical, electronic and procedural safeguards to protect personal data in accordance with the requirements of data protection legislation. Section 7.8 Robust corporate governance framework We maintain a high standard of corporate governance framework to safeguard our shareholders' interest and maximise long-term shareholder value.

SUSTAINABILITY REPORT

9. GRI CONTENT INDEX

GRI standard & disclosure title		Section reference	Page
Organisation profile			
102-1	Name of the organization	Cover page	–
102-2	Activities, brands, products, and services	• Notes to the Financial Statements > General • Notes to the Financial Statements > Investment in Subsidiaries	59 – 60 85 – 87
102-3	Location of headquarters	Corporate Information	12
102-4	Location of operations	• Retail Footprint • Corporate Information	6 – 7 12
102-5	Ownership and legal form	• Group Structure • Notes to Financial Statements > General • Statistics of Shareholdings	3 59 – 60 110 – 111
102-6	Markets served	Retail Footprint	6 – 7
102-7	Scale of the organization	• Group 5-Year Financial Highlights • Group Operations Review • Sustainability Report > Material Factors > Equality and Diversity in the Workplace • Consolidated Statement of Profit or Loss and Other Comprehensive Income • Statements of Financial Position	8 9 – 11 20 54 55
102-8	Information on employees and other workers	Sustainability Report > Material Factors > Equality and Diversity in the Workplace	20
102-9	Supply chain	We source a wide range of IT and related products from reputable IT product distributors and original brand manufacturers. Our product categories include electrical hardware, input devices, mobile computing hardware, printing devices, accessories, office products, desktops, data communication products, storage devices, multimedia products, software, digital gadgets and home entertainment appliances	–
102-10	Significant changes to the organization and its supply chain	There was no significant changes to the organization and its supply chain during the reporting period	–
102-11	Precautionary Principle or approach	None	–
102-12	External initiatives	Sustainability Report > Material Factors > Supporting the UN Sustainable Development Goals	24 – 26
102-13	Membership of associations	None	–

SUSTAINABILITY REPORT

GRI standard & disclosure title		Section reference	Page
Strategy			
102-14	Statement from senior decision-maker	Sustainability Report > Board Statement	13
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	• Sustainability Report > Material Factors > Robust Corporate Governance Framework • Corporate Governance	24 30 – 45
Governance			
102-18	Governance structure of the organization	Corporate Governance	30 – 45
Stakeholder engagement			
102-40	List of stakeholder groups	Sustainability Report > Stakeholder Engagement	14 – 15
102-41	Collective bargaining agreements	None of our employees are covered by collective bargaining agreements	–
102-42	Identifying and selecting stakeholders	Sustainability Report > Stakeholder Engagement	14 – 15
102-43	Approach to stakeholder engagement	Sustainability Report > Stakeholder Engagement	14 – 15
102-44	Key topics and concerns raised	Sustainability Report > Stakeholder Engagement	14 – 15
Reporting practice			
102-45	Entities included in the consolidated financial statements	• Group Structure • Notes to Financial Statements > Investments in Subsidiaries	3 85 – 87
102-46	Defining report content and topic Boundaries	Sustainability Report > Sustainability Reporting Processes	16
102-47	List of material topics	Sustainability Report > Material Factors	17 – 24
102-48	Restatements of information	None	–
102-49	Changes in reporting	Sustainability factors added: Sustainability Report > Material Factor > Employee Training and Development	 22 – 23
102-50	Reporting period	Sustainability Report > Reporting Period and Scope	14
102-51	Date of most recent report	Sustainability Report FY2018	–
102-52	Reporting cycle	Sustainability Report > Reporting Period and Scope	14
102-53	Contact point for questions regarding the report	Sustainability Report > Feedback	14

SUSTAINABILITY REPORT

GRI standard & disclosure title		Section reference	Page
102-54	Claims of reporting in accordance with the GRI Standards and GRI content index	• Sustainability Report > Reporting Framework • Sustainability Report > GRI Content Index	14 27 – 29
102-55	GRI content index	Sustainability Report > GRI Content Index	27 – 29
102-56	External assurance	We may seek external assurance in the future	–
Management approach			
103-1	Explanation of the material topic and its Boundary	Sustainability Report > Material Factors	17 – 24
103-2	The management approach and its components	• Sustainability Report > Board Statement • Sustainability Report > Policy, Practice and Performance Reporting • Sustainability Report > Material Factors	13 16 – 17 17 – 24
103-3	Evaluation of management approach	Sustainability Report > Material Factors	17 – 24
Category: Economic			
201-1	Direct economic value generated and distributed	• Group 5-Year Financial Highlights • Group Operations Review • Consolidated Statement of Profit or Loss and Other Comprehensive Income • Statements of Financial Position	8 9 – 11 54 55
Category: Environmental			
302-1	Energy consumption within the organization	Sustainability Report > Material Factors > Energy Conservation	19
306-2	Waste by type and disposal method	Sustainability Report > Material Factors > Optimal Waste Management	19 – 20
Category: Social			
404-2	Programs for upgrading employee skills and transition assistance programs	Sustainability Report > Material Factors > Employee Training and Development	22 – 23
405-1	Diversity of governance bodies and employees	Sustainability Report > Material Factors > Equality and Diversity in the Workplace	20
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Sustainability Report > Material Factors > Commitment to Quality and Product Safety	21
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Sustainability Report > Material Factors > Commitment to Customer Privacy	21 – 22

CORPORATE GOVERNANCE

This report outlines the Company's corporate governance practices and structures in the financial year ended 31 December 2019 ("FY2019"), with specific reference made to each of the principles of the Code of Corporate Governance 2018 (the "Code"). The Company has complied with the principles of the Code, and any deviations from the effective provisions of the Code are explained.

The Board's Conduct of its Affairs

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

Role of the Board

i. Directors are fiduciaries who act objectively in the best interests of the Company and hold the management of the Company accountable for performance by the implementation of a code of conduct and ethics which sets the appropriate tone-of-the-top, culture of the Company and ensures proper accountability within the Company.

ii. Directors who are facing conflicts of interest will recuse themselves from discussions and decisions involving the issues of conflict.

Training for Directors

iii. Directors understand the Company's business and their duties as directors whether executive, non-executive or independent and shall be provided with opportunities to develop and maintain their skills and knowledge. Directors are regularly updated on the changes to accounting standards, rules and regulations that may impact the Group by management and various professionals.

iv. Directors with no prior experience as a Director of a listed company are required to undergo training in the roles and responsibilities of a listed company Director unless the nominating committee is of the view that the Director has other relevant experience. The Company has no new and/or existing director with no prior experience as a director of a listed company.

Matters Requiring Board Approval

v. The Board had previously approved and adopted internal control procedures and guidelines for the Company. Under such procedures and guidelines, the approval of the Board is required for any transaction exceeding S$1 million in value not entered into in the ordinary course of business.

Formation of Board Committees

vi. The Board committees shall be formed with clear written terms of reference setting out their compositions, authorities and duties, including reporting back to the Board. The names of the committee members, the terms of reference, any delegation of the Board's authority to make decisions, and a summary of each committee's activities, is disclosed in this Annual Report.

vii. Currently, there are three (3) Committees – the Audit Committee (the "AC"), the Nominating Committee (the "NC") and the Remuneration Committee (the "RC"). Each of these Committees has its own terms of reference. The Committees report to, and their actions are reviewed by, the Board.

CORPORATE GOVERNANCE

Frequency of Meetings

viii. Directors meet regularly on a quarterly basis and actively participate in Board and board committee meetings.

ix. The number of meetings of the Board and Committees held in FY2019, as well as the attendance of each Board member thereat, are set out below:

	Board	Committees		
		Audit	Nominating	Remuneration
Number of meetings held	4	4	1	1
Board Members	**Number of meetings attended**			
Loo Leong Thye	4	4*	1*	1*
Tan Wee Ko	4	4*	1*	1*
Tan Han Beng	4	4	1	1
Max Ng Chee Weng	4	4	1	1
Tan Chay Boon	3	3	1	1

* By invitation

x. Directors are consistently provided with complete, adequate and timely information prior to meetings to allow Directors to make informed decisions and to discharge their duties and responsibilities. Directors are also periodically briefed on the performance and developments in respect of the Group.

xi. As a general rule, notices are sent to the Directors at least one (1) week in advance of Board meetings, followed by the Board papers in order for the Directors to be adequately prepared for the meetings. Key management personnel attend board meetings to address queries from the Directors. The Directors also have unrestricted access to the Company's key management personnel, and may also request further explanations, briefings or informal discussions on any aspects of the Group's operations or business issues from the management. Requests for the Company's information by the Board are dealt with promptly.

Professional Advisers

xii. The Board (whether as individual members or as a group) has direct access to independent professional advisers, where so requested by them in the furtherance of their duties, at the expense of the Company.

Appointment to Company Secretary

xiii. The Company Secretary attends all meetings of the Board and Board committees and ensures that all Board procedures are followed and applicable rules and regulations are complied with.

xiv. The appointment and removal of the company secretary is a decision of the Board and the Directors have separate and independent access to them.

CORPORATE GOVERNANCE

Board Composition and Guidance

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

Independent Directors and Non-Executive Directors

The composition of the Board is reviewed on an annual basis by the NC. As at the date of this report, the Board comprises five (5) members. Save for the Chief Executive Officer ("CEO"), Mr Loo Leong Thye and the Chief Financial Officer ("CFO"), Mr Tan Wee Ko, the rest of the Board is made up of non-executive and Independent Directors (the "IDs"). Each Director has been appointed on the strength of his and her calibre and experience. Please refer to the section on the Board of Directors for their individual profiles.

As there are three (3) IDs on the Board for the financial year under review, the prevailing applicable requirement of the Code that at least one-third (1/3) of the Board be comprised of IDs is satisfied. All the board committee meetings are chaired by the IDs.

The NC adopts the Code's definition of what constitutes an ID. The Board, taking into account the views of the NC, considers an "independent" Director as one who is independent in conduct, character and judgement, and has no relationship with the company, its related corporations, its substantial shareholders, or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement in the best interests of the Group. The independence of each Director is reviewed annually by the NC.

Mr Max Ng Chee Weng has served as an ID of the Company for more than nine (9) years since his initial appointment in 2006. The Board has subjected his independence to particularly rigorous review. Taking into account the view of the NC, the Board concurs that Mr Max Ng Chee Weng has continued to demonstrate his strong independence in character and judgement in the discharge of his responsibilities as a Director of the Company, and found no reason to understand that the length of his service has in any way dimmed his independence. Given his wealth of working experience and professionalism, the NC has found Mr Max Ng Chee Weng suitable to continue to act as an ID notwithstanding that he has served for more than nine (9) years from his initial appointment.

Mr Max Ng Chee Weng is also the Managing Director of Gateway Law Corporation, which provides legal and professional services to the Group from time to time. The NC is also of the view that the business relationship with Gateway Law Corporation will not interfere with the exercise of independent judgment by Mr Max Ng Chee Weng in his role as an ID and he has continued to demonstrate integrity and objectivity in the discharge of his duties. After due consideration and careful assessment, the NC considers that Mr Max Ng Chee Weng continues to be considered independent notwithstanding the services rendered and payment made to Gateway Law Corporation in FY2019.

Both the NC and the Board of the view that Mr Max Ng Chee Weng, Mr Tan Han Beng and Ms Tan Chay Boon are independent and that there are no individuals or small groups of individuals who dominate the Board's decision-making process. Mr Max Ng Chee Weng has abstained from deliberating on his independence.

CORPORATE GOVERNANCE

Board Size

The Board periodically examines its size to ensure that it is of an appropriate number for effective decision making, taking into account the scope and nature of the operations of the Company. The Board is of the view that the size of five (5) is an appropriate size that facilitates effective decision making considering in particular the need to avoid undue disruptions from changes to the composition of the Board and the Committees, whilst noting the nature and scope of the Group's operations.

Competencies of Directors

The independence of each Director is reviewed annually by the NC and the Board. Each Independent Director is required to confirm their independence annually.

The Board and board committees composition reflects the broad range of experience, skills, knowledge and other diversity such as gender and age necessary to avoid groupthink and to foster constructive debate. The NC and the Board are both of the view that the current Board and the Committees comprise persons whose diverse skills, experience and attributes provide for an effective Board. The profile of each Director is set out in this Annual Report.

The non-executive directors and/or IDs constructively challenge and assist in the development of proposals on strategy, and assist the Committees and the Board in reviewing the performance of the management in meeting agreed goals and objectives, and monitor the reporting of performance. When necessary, the non-executive directors and/or IDs will have discussions amongst themselves without the presence of management.

Chairman and Chief Executive Officer

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

Chairman

The Company has not created a separate position of Chairman as the Board is of the view that the current Board composition and the establishment of the Committees, namely, the AC, NC and RC, are sufficient to ensure accountability and independent decision-making.

CEO

The CEO, Mr Loo Leong Thye, bears executive responsibility for the Group's business and implements the decisions and directions of the Board. For administrative purposes only, he is usually elected as the Chairman of each Board meeting.

In view of the above and in line with the Code, the Company has appointed an independent Non-Executive Director, Mr Tan Han Beng, to be the Lead Independent Director (the "Lead ID") to enhance the independence of the Board and to assist the Chairman in the discharge of his duties when the need arises. He is also available to shareholders where they have concerns and for which contact through normal channels of the CEO or the CFO has failed to resolve or is inappropriate.

CORPORATE GOVERNANCE

Board Membership

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

Establishment, Composition and Membership of NC

The Company has the NC, which makes recommendations to the Board on all appointments and re-appointments to the Board and key management personnel. The NC meets at least once a year.

As the date of this report, the NC comprises three (3) IDs, hence fulfilling the requirement that the NC be made up of at least three (3) Directors, the majority of whom, including the NC chairman, are independent. The Lead ID is a member of the NC.

The membership of the NC is as follows:

Chairman:	Max Ng Chee Weng	(ID)
Members:	Tan Han Beng	(Lead ID)
	Tan Chay Boon	(ID)

The NC has written terms of reference that describe the responsibilities of its members.

Responsibilities of NC

The responsibilities of the NC are:

i. to review the nominations for the appointments and re-appointments of Directors;

ii. to review the independence of the Directors on an annual basis, and as and when circumstances require;

iii. to review the adequacy of each Director's contribution at meetings and his ability and capacity in carrying out the duties as a Director;

iv. to ensure that all Directors submit themselves for re-nomination and re-election at regular intervals and at least once every three (3) years;

v. to decide on how the Board's performance may be evaluated, and propose objective performance criteria to assess effectiveness of the Board as a whole and the contribution of each Director;

vi. to ensure that new Directors are aware of their duties and obligations;

vii. the review of board succession plans for Directors and key management personnel; and

viii. review of training and professional development programmes for the Board.

CORPORATE GOVERNANCE

Independence and Commitment of Directors

The NC determines on an annual basis, and as and when circumstance require, whether or not a Director is independent, for the purposes of the Code. The NC is of the view that the IDs are independent.

In assessing the performance of each individual Director, the NC considers whether he has multiple board representations and other principal commitments, and is able to and adequately carried out his duties as a Director notwithstanding such commitments. The NC is satisfied that sufficient time and attention to the affairs of the Company has been given by those Directors who have multiple board representations.

To address the competing time commitments that are faced when Directors serve on multiple boards, the NC has reviewed and the Board has determined and set the maximum number of listed company board appointments at not more than five (5) companies. Currently, none of the Directors holds more than five (5) directorships in listed companies.

Directors are encouraged to attend relevant training programmes conducted by the relevant institutions and organisations. The cost of such training will be borne by the Company.

Pursuant to the Articles of Association, at least one-third (1/3) of the Directors, are required to retire by rotation and submit themselves for re-election at each Annual General Meeting of the Company. Accordingly, the Directors will submit themselves for re-nomination and re-election at regular intervals and at least once every three (3) years.

The NC has recommended to the Board that Mr Tan Wee Ko and Mr Tan Han Beng be nominated for re-election at the forthcoming Annual General Meeting. In making the recommendation, the NC has considered the Director's overall contributions and performance.

Mr Tan Wee Ko will, upon re-election as a Director of the Company, remain as the Executive Director and Chief Financial Officer of the Company.

Mr Tan Han Beng will, upon re-election as a Director of the Company, remain as the Chairman of the Audit Committee, and a member of the Nominating Committee and the Remuneration Committee, and the Board considers him to be independent for the purpose of Rule 704(8) of the Listing Manual of the SGX-ST.

Selection and Appointment of New Directors

The Company does not have a formal process for the selection, appointment and re-appointment of new Directors to the Board. However, if required, the Company has procured or is able to procure search services, contacts and recommendations for the purposes of identifying suitably qualified and experienced persons for nomination and appointment to the Board.

CORPORATE GOVERNANCE

Key information on Directors

The date of initial appointment and last re-election of each Director, together with their directorships in other listed Companies subsisting in FY2019 and the last three preceding years are set out below:

Name	Age	Appointment	Date of initial appointment	Date of last election	Directorships in other listed companies
Loo Leong Thye	66	Executive Director & CEO	14/01/1984	26/04/2018	**Present Directorships** NIL **Past Directorships (in the last three preceding years)** NIL
Tan Wee Ko	50	Executive Director & CFO	30/04/2013	25/04/2017	**Present Directorships** NIL **Past Directorships (in the last three preceding years)** NIL
Max Ng Chee Weng	49	Independent Director	12/01/2006	29/04/2019	**Present Directorships** Alpha Energy Holdings Limited **Past Directorships (in the last three preceding years)** NIL
Tan Han Beng	45	Independent Director	01/03/2013	26/04/2018	**Present Directorships** Don Agro International Limited Old Chang Kee Ltd **Past Directorships (in the last three preceding years)** Kitchen Culture Holdings Ltd
Tan Chay Boon	60	Independent Director	01/03/2013	29/04/2019	**Present Directorships** NIL **Past Directorships (in the last three preceding years)** NIL

Key information of each Director is disclosed in the profile of that Director as set out in this Annual Report.

CORPORATE GOVERNANCE

Board Performance

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

Formal assessment of the effectiveness of the Board and contribution of each Director

The NC has adopted processes for the evaluation of the Board and the Committees' performance and effectiveness as a whole, and of each board committee separately, as well as the contributions of individual Directors, based on an objective performance criteria approved the Board. The NC assesses the Board's effectiveness as a whole as well as on each individual Director by completing an assessment checklist, which takes into consideration factors such as the Board's structure, conduct of meetings, risk management and internal control, and the Board's relationship with the Management. The NC collates the results of these assessment checklists and formally discusses the results collectively with other Directors of the Board to address any areas for improvement. Other objective performance criteria include qualitative and quantitative factors such as performance of principal functions and fiduciary duties, level of participation at Board and Committee meetings, guidance provided to the Management and attendance record.

The NC has reviewed the overall performance of the Board in terms of its role and responsibilities and the conduct of its affairs as a whole for the financial year and is of the view that the performance of each Director and the Board as a whole has been satisfactory.

Remuneration Matters

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

Establishment, Composition and Membership of RC

The Company has the RC, which makes recommendations to the Board on the framework of remuneration and the specific remuneration packages for each Director and the CEO.

As the date of this report, the RC comprises three (3) IDs, hence fulfilling the requirement that the RC be made up of at least three (3) non-executive Directors, the majority of whom, including the RC chairman, are independent. The Lead ID is a member of the RC.

The membership of the RC is as follows:

Chairman:	Max Ng Chee Weng	(ID)
Members:	Tan Han Beng	(Lead ID)
	Tan Chay Boon	(ID)

The RC has written terms of reference that describe the responsibilities of its members.

CORPORATE GOVERNANCE

Responsibilities of RC

The responsibilities of the RC are:

i. to recommend to the Board a framework of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind;

ii. to recommend specific remuneration packages for each Director, including the CEO;

iii. to review the remuneration of key management personnel;

iv. to consider all aspects of remuneration, including termination terms, to ensure that they are fair; and

v. to review the level and structure of remuneration to align with the long-term interest and risk policies of the Company in order to attract, retain and motivate the Directors and key management personnel.

The members of the RC are familiar with executive compensation matters as they manage their own businesses and/or are holding other directorships. The RC has access to expert advice regarding executive compensation matters, if required. The Board did not engage any external remuneration consultant to advise on remuneration matters for FY2019.

Level and Mix of Remuneration

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

Appropriate remuneration to attract, retain and motivate Directors

The remuneration, including incentive bonuses of the CEO, Mr Loo Leong Thye, is based on a service agreement made on 15 September 2003, as disclosed in the Company's IPO prospectus dated 5 January 2004. The service agreement was for an initial term of three (3) years and is automatically renewed for successive terms of two (2) years each after the initial term on such terms and conditions as the CEO and the Company may agree. Either of the CEO or the Company may terminate the relevant service agreement by giving three (3) months' written notice or payment in lieu thereof.

The Company has also entered into a service agreement with the Executive Director & CFO, Mr Tan Wee Ko, on 1 January 2014 for an initial term of three (3) years and is automatically renewed for successive terms of two (2) years each on such terms and conditions as may be mutually agreed.

The remuneration of the Executive Directors includes a Director's fee, a fixed salary and a variable performance-related bonus which is designed to align the interests of the Directors with those of shareholders. Revisions to the terms of the service agreements are subject to review by the RC (taking into consideration the employment conditions within the IT industry and comparable companies), which then recommends the same to the Board for their consideration and approval.

Independent Directors are each paid a Director's fee for their effort and time spent, responsibilities and contributions to the Board, subject to the approval of shareholders at the Company's Annual General Meetings.

CORPORATE GOVERNANCE

All revisions to the remuneration packages for the Directors and key management personnel are subject to review by and approval of the Board and are appropriate to attract, retain and motivate the directors to provide good stewardship of the company. Each member of the RC will abstain from reviewing and approving his or her own remuneration and the remuneration packages of persons related to him/her.

Disclosure on Remuneration

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

Directors' Remuneration

Breakdown of remuneration of each Director by % for FY2019 is as shown:

Remuneration Band & Name of Directors	Fixed Salary	Directors' Fees	Allowance & Others	Variable or Performance Related Income/ Bonus	Total
S$1,200,000 to S$1,249,999					
Loo Leong Thye	36%	1%	1%	62%	100%
S$700,000 to S$749,999					
Tan Wee Ko	37%	2%	7%	54%	100%
Below S$50,000					
Max Ng Chee Weng	–	100%	–	–	100%
Tan Han Beng	–	100%	–	–	100%
Tan Chay Boon	–	100%	–	–	100%

Remuneration of Key Executives

The remuneration of its top five (5) key management personnel (who are not Directors or the CEO) for FY2019 is as shown:

Remuneration Band & Name of Key Management Personnel	Fixed Salary	Allowance & Others	Variable or Performance Related Income/ Bonus	Total
S$250,000 to S$499,999				
Loo Pei Fen	67%	13%	20%	100%
Yong Kim Hon	48%	8%	44%	100%
Woon Yoon Siong	80%	5%	15%	100%
Below S$250,000				
Ng Kian Teck	69%	11%	20%	100%
Seah Chin Tiong	81%	14%	5%	100%

CORPORATE GOVERNANCE

The Company has not disclosed exact details of the remuneration of each individual Director and key management personnel as it is not in the best interests of the Company and employees to disclose such details due to the sensitive nature of such information. The annual aggregate remuneration paid to the top five (5) key management personnel of the Company (who are not Directors or the CEO) for FY2019 is S$1,331,000.

The remuneration of Ms. Loo Pei Fen, the daughter of the Company's CEO, Mr. Loo Leong Thye, falls within the band of S$200,000 and S$300,000 during FY2019. Save as disclosed, there are no other employees who are immediate family members of a Director and whose remuneration exceeds S$100,000.

Risk Management and Internal Controls

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

The Board is responsible for the governance of risk and sets the tone and direction for the Group in the way risks are managed in the Group's businesses. The Board has ultimate responsibility for approving the strategy of the Group in a manner which addresses stakeholders' expectations and does not expose the Group to an unacceptable level of risk. However, such systems are designed to manage rather than eliminate completely the risk of failure to business objectives. It should also be noted that any system could only provide reasonable and not absolute assurance against material misstatement, losses or fraud.

The Board approves, and reviews at least on an annual basis, the key risk management policies and ensures a sound system of risk management and internal controls and monitors performance against them. In addition to determining the approach to risk governance, the Board sets and instills the right risk focused culture throughout the Group for effective risk governance.

The Board has approved a group risk management framework for the identification of key risks within the business which is aligned with the ISO 31000:2018 Risk Management framework.

The AC is responsible for overseeing risk governance and the related roles and responsibilities of the AC on risk governance include the following:

- proposing the risk governance approach and risk policies for the Group to the Board;
- reviewing the risk management methodology adopted by the Group;
- reviewing the strategic, financial, operational, regulatory, compliance, information technology and other emerging risks relevant to the Group identified by management; and
- reviewing management's assessment of risks and management's action plans to mitigate such risks.

As per its usual practice, the management presented an annual report to the AC and the Board on the Group's risk profile, the status of risk mitigation action plans and the results of various assurance activities carried out on the adequacy of the Group's internal controls including financial, operational, compliance and information technology controls. Such assurance activities include controlled self-assessment performed by the management, internal and external audits conducted by external professional service firms.

CORPORATE GOVERNANCE

The Board has obtained a written confirmation from the CEO and CFO:

(a) that 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) regarding the adequacy and effectiveness of the Group's risk management systems and internal control systems.

Based on the risk management framework and internal controls established and maintained by the Group, work performed by the internal and external auditors and reviews performed by the management, various Board Committees and the Board, the AC and the Board are satisfied that the Group's risk management framework and internal controls including financial, operational, compliance and information technology controls, were adequate and effective for FY2019 to address the risks which the Group considers relevant and material to its current business environment and scope of operations.

The Board notes that the system of internal controls and risk management established by the Group provides reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. The Board also notes that no system of internal controls and risk management can provide absolute assurance in this regard or against the occurrence of material errors, poor judgment in decision-making, human error, losses, fraud or other irregularities.

Audit Committee

Principle 10: The Board has an AC which discharges its duties objectively.

Establishment, Composition and Membership of AC

The Company has the AC, which reports to the Board on all matters requiring audit in respect of the Company.

As the date of this report, the AC comprises three (3) IDs, hence fulfilling the requirement that the AC be made up of at least three (3) non-executive directors, the majority of whom, including the AC chairman, are independent. At least two members, including the AC Chairman, have recent and relevant accounting or related financial management expertise or experience.

The membership of the AC is, as follows:

Chairman:	Tan Han Beng	(Lead ID)
Members:	Max Ng Chee Weng	(ID)
	Tan Chay Boon	(ID)

The AC has written terms of reference that clearly set out its authority and duties.

CORPORATE GOVERNANCE

Responsibilities of AC

The responsibilities of the AC are:

i. to review the quarterly financial statements and the accompanying statements presented for approval, before endorsement by the Board so as to ensure the integrity of information to be released;

ii. to review the adequacy, effectiveness, independence, scope and results of the external audit and internal audit function of the Group and its cost effectiveness, and the independence and objectivity of the external auditors;

iii. to review the nature and extent of non-audit services by the external auditors, when necessary and to seek a balance in the maintenance of objectivity;

iv. to review significant financial reporting issues and judgments to ensure the integrity of financial statements and any formal announcements relating to the Company's financial statements;

v. to review the assurance from the CEO and the CFO on the financial records and financial statements;

vi. to review at least annually the adequacy of the Company's internal controls and risk management systems including financial, operational, compliance and information technology controls established by the Management;

vii. to review and ratify all interested person transactions, if any, to ensure that they comply with the approved internal control procedures and have been conducted on an arm's length basis;

viii. to meet with the internal auditors and external auditors without the presence of the Management at least once a year; and

ix. to make recommendations to the Board on: (i) the proposals to the shareholders on the appointment and removal of external auditors; and (ii) the remuneration and terms of engagement of the external auditors.

The members of the AC have sufficient financial management expertise, as determined by the Board in its business judgment, to discharge the AC's functions.

Summary of the AC's activities

The AC met four (4) times during the year under review. Details of members' attendance at the meetings are set out in Principle 1 above. The CEO, CFO, Company Secretary, internal auditors and external auditors are invited to these meetings. Other members of senior management level are also invited to attend as appropriate to present reports.

The AC has met with the external auditors and the internal auditors, without the presence of the management in FY2019.

CORPORATE GOVERNANCE

The AC met on a quarterly basis and reviewed the quarterly and full year announcements, material announcements and all related disclosures to the shareholders before submission to the Board for approval. In the process, the AC reviewed the audit plan and audit committee report presented by the external auditors. The external auditors provide regular updates and periodic briefing to the AC on changes or amendments to accounting standards to enable the members of the AC to keep abreast of such changes and its corresponding impact on the financial statements, if any.

The AC also reviewed the annual financial statements and discussed with the Management, the CFO and the external auditors the significant accounting policies, judgment and estimate applied by the Management in preparing the annual financial statements. Following the review and discussions, the AC then recommended to the Board for approval of the audited annual financial statements.

The aggregate amount of fees paid to the external auditors and other independent auditors for FY2019 was approximately S$192,000. The audit fees to the external auditors amounted to approximately S$116,000 and non-audit fees (in connection with the provision of income tax compliance work, review of results announcement and delisting review services) amounted to approximately S$63,000. The audit fees paid to the other independent auditors for FY2019 amounted to approximately S$12,000 and non-audit fees (in connection with the provision of income tax compliance work) amounted to approximately S$1,000. The AC, having reviewed such non-audit services, is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors.

The Board of Directors and AC are satisfied that the appointment of different auditing firms would not compromise the standard and effectiveness of the audit of the Group. The Group confirms that it has complied with Rule 712 and 715 of the SGX-ST Listing Manual in relation to its auditing firms.

The AC has reviewed arrangements by which the staff of the Company may, in confidence, raise concerns about (such as possible improprieties in matters of financial reporting or other matters), with the object of ensuring that arrangements are in place for the independent investigation of such matters for appropriate follow-up action. In this regard, the AC had since adopted a whistle-blowing policy with effect from FY2007 and further enhanced in FY2014 (the "Whistle-Blowing Policy"). The AC oversees the administration of the Whistle-Blowing Policy. Periodic reports will be submitted to the AC stating the number and the complaints received, the results of the investigations, follow-up actions and unresolved complaints.

The Whistle-Blowing Policy encourages employees and external parties to raise concerns, in confidence, about possible irregularities to an independent third party provider, Yang Lee and Associates. During FY2019, there were no complaints, concerns or issues received.

Internal Audit

The Group outsources its internal audit function to a professional service firm, Yang Lee & Associates ("IA"). The IA reports directly to the AC and internal control weaknesses identified during the internal audit reviews and the recommended corrective actions are reported to the AC periodically. The AC approves the hiring, removal, evaluation and compensation to the IA. The IA has unfettered access to all the Company's documents, records, properties and personnel, including access to the AC.

The AC reviews and approves the internal audit scope and plan to ensure that there is sufficient coverage of the Group's activities. It also oversees the implementation of the internal audit plan and ensures that management provides the necessary co-operation to enable the IA to perform its function.

The IA is guided by the International Standards for the Professional Practice of Internal Auditing (IIA Standards) issued by the Institute of Internal Auditors.

CORPORATE GOVERNANCE

The AC annually reviews the effectiveness and adequacy of the internal audit function to ensure that the internal audits are performed effectively. The AC has reviewed and confirmed that IA is a suitable professional service firm to meet the Company's internal audit obligations, having regard to the adequacy of resources, independence and experience of the firm and the assigned engagement director, number and experience of supervisory and professional staff assigned to internal audits.

Shareholder Rights and Engagement

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

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

In compliance with the prevailing rules of the SGX-ST Listing Manual, all resolutions will be voted on by way of poll at general meetings held on and after 1 August 2015. This will entail shareholders being invited to vote on each of the resolutions by poll, using polling slips (instead of voting by hands), thereby allowing all shareholders present or represented at the meeting to vote on a one share, one vote basis. The voting results of all votes cast for, or against, each resolution will then be screened at the meeting and announced to the SGX-ST after the meeting.

Resolutions are as far as possible, structured separately and may be voted upon independently. Resolutions are passed at general meetings by poll.

The Company regards its Annual General Meeting as an opportunity to communicate directly with shareholders and therefore encourages greater shareholder participation, whether in person or by proxy. The CEO and other Directors have attended the two shareholders' meetings convened in FY2019 to answer questions and address concerns from shareholders. The Company will release minutes of the shareholders' meeting on SGXNET if there are any material matters discussed that have not been previously disclosed to shareholders and such minutes are also available to shareholders upon their request.

The Company's Articles of Association allow all shareholders to appoint proxy/proxies to attend general meetings and vote on his/her/their behalf.

The Board is mindful of its obligations to provide timely disclosure of material information to shareholders of the Company and does so through:

i. annual reports issued to all shareholders. Non-shareholders may access the SGX website for copies of the Company's annual reports;

ii. periodic and full yearly announcements of its financial statements on the SGXNET;

iii. other announcements on the SGXNET;

iv. media releases on major developments regarding the Company; and

v. the Company's website at www.challengerasia.com through which shareholders can access information on the Company.

CORPORATE GOVERNANCE

The Company does not have a formal dividend policy. The form, frequency and amount of dividends will depend on the Company's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the Directors may deem appropriate.

The Company has specifically entrusted an investor relations team comprising the CEO and the CFO with the responsibility of facilitating communications with shareholders and analysts and attending to their queries or concerns.

Engagement with Stakeholders

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

The Company engages its stakeholders through various channels to ensure that the business interests of the Group are balanced against the needs and interests of its stakeholders. The Company's key stakeholders have been identified in the Sustainability Report, which comprise communities, customers, employees, regulators, shareholders and vendors. These stakeholders can have an impact on and can also be impacted by the Group's business and operations. The concerns of the stakeholders are addressed so as to improve operational standards, as well as to sustain business operations for long term growth and sustainability.

The Sustainability Report also outlines how relationships with these key stakeholders are managed. Please refer to the Company's Sustainability Report 2019 of this Annual Report.

Securities Transactions by Officers and Employees

In compliance with Rule 1207(19) as set out in the SGX-ST Listing Manual on dealings in securities, the Company, Directors and employees of the Company are advised not to deal in the Company's shares on short-term considerations or when they are in the possession of unpublished price-sensitive information. The Company prohibits dealings in its shares by its officers and employees during the period commencing two (2) weeks before the announcement of the Company's quarterly results or one (1) month before the announcement of the Company's full year results, and ending on the date of the announcement of the results.

Interested Person Transactions (IPTs)

When a potential conflict of interest arises, the Director concerned does not participate in discussion and refrains from exercising any influence over other members of the Board.

The Company has established internal control polices to ensure that IPTs are properly reviewed and approved and are conducted at arm's length basis.

Saved as disclosed in the audited financial statements of this Annual Report, the Company confirms that there were no individual interested person transactions above S$100,000, as defined in Chapter 9 of the SGX-ST Listing Manual, entered into during FY2019.

Material Contracts

There were no material contracts entered into by the Company during FY2019 or still subsisting as at 31 December 2019 which involved the interests of any of the Directors, CEO or controlling shareholders of the Company.

STATEMENT BY DIRECTORS

The directors of the company are pleased to present the accompanying financial statements of the company and of the group for the reporting year ended 31 December 2019.

1. Opinion of the directors

In the opinion of the directors,

(a) the accompanying financial statements and the consolidated financial statements are drawn up so as to give a true and fair view of the financial position and performance of the company and, of the financial position and performance of the group for the reporting year covered by the financial statements or consolidated financial statements; and

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

The board of directors approved and authorised these financial statements for issue.

2. Directors

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

Loo Leong Thye (Chief Executive Officer)
Tan Wee Ko
Max Ng Chee Weng
Tan Chay Boon
Tan Han Beng

3. Directors' interests in shares and debentures

The directors of the company holding office at the end of the reporting year were not interested in shares in or debentures of the company or other related body corporate as recorded in the register of directors' shareholdings kept by the company under section 164 of the Companies Act, Chapter 50 ("the Act") except as follows:

Name of directors and company in which interests are held	At beginning of the reporting year	At end of the reporting year
The company: Challenger Technologies Limited	**Number of ordinary shares of no par value**	
Loo Leong Thye	148,352,250	148,352,250
Tan Wee Ko	1,788,000	1,788,000
Max Ng Chee Weng	17,500	17,500

STATEMENT BY DIRECTORS

3. Directors' interests in shares and debentures (Continued)

Name of directors and company in which interests are held	Shareholdings in which directors are deemed to have an interest At beginning of the reporting year	At end of the reporting year
The company: Challenger Technologies Limited	**Number of ordinary shares of no par value**	
Loo Leong Thye	40,055,700	40,055,700
Max Ng Chee Weng	11,500	11,500

By virtue of section 7 of the Act, Mr Loo Leong Thye with the above interests is deemed to have an interest in the company and in all the related body corporates of the company.

The directors' interests as at 21 January 2020 were the same as those at the end of the reporting year.

4. Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of the reporting year nor at any time during the reporting year did there subsist arrangements to which the company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

5. Options

During the reporting year, no option to take up unissued shares of the company or other body corporate in the group was granted.

During the reporting year, there were no shares issued by virtue of the exercise of an option to take up unissued shares.

At the end of the reporting year, there were no unissued shares under option.

6. Independent auditor

RSM Chio Lim LLP has expressed willingness to accept re-appointment.

STATEMENT BY DIRECTORS

7. Report of audit committee

The members of the audit committee at the date of this report are as follows:

Tan Han Beng	–	Chairman of audit committee
Max Ng Chee Weng	–	Independent director
Tan Chay Boon	–	Independent director

The audit committee performs the functions specified by section 201B(5) of the Act. Among other functions, it performed the following:

- Reviewed with the independent external auditor their audit plan;
- Reviewed with the independent external auditor their evaluation of the company's internal accounting controls relevant to their statutory audit, and their report on the financial statements and the assistance given by the management to them;
- Reviewed with the internal auditors the scope and results of the internal audit procedures (including those relating to financial, operational and compliance controls and risk management) and the assistance given by the management to the internal auditor;
- Reviewed the financial statements of the group and the company prior to their submission to the directors of the company for adoption; and
- Reviewed the interested person transactions (as defined in Chapter 9 of the Singapore Exchange Securities Trading Limited's Listing Manual).

Other functions performed by the audit committee are described in the report on corporate governance included in the annual report of the company. It also includes an explanation of how independent auditor objectivity and independence is safeguarded where the independent auditors provide non-audit services.

The audit committee has recommended to the board of directors that the independent auditor, RSM Chio Lim LLP, be nominated for re-appointment as independent auditors at the next Annual General Meeting of the company.

8. Directors' opinion on the adequacy of internal controls

Based on the internal controls established and maintained by the company, work performed by the internal and external auditors, and reviews performed by management, other committees of the board and the board, the audit committee and the board are of the opinion that the company's internal controls, addressing financial, operational and compliance risks, are adequate as at the end of the reporting year 31 December 2019.

STATEMENT BY DIRECTORS

9. Subsequent developments

There are no significant developments subsequent to the release of the group's and the company's preliminary financial statements, as announced on 13 February 2020, which would materially affect the group's and the company's operating and financial performance as of the date of this report.

On behalf of the directors

Loo Leong Thye
Chief Executive Officer

Tan Wee Ko
Executive Director

18 March 2020

INDEPENDENT AUDITOR'S REPORT

To the Members of Challenger Technologies Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Challenger Technologies Limited (the "company") and its subsidiaries (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 2019, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the group, and statement of changes in equity of the company for the reporting year then ended, and notes to the financial statements, including accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current reporting year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Net realisable value of inventories

Refer to Notes 2A and 2C to the financial statements for the relevant accounting policy and critical judgement in relation to inventories and Note 18 for the breakdown of inventories for the reporting year end.

The group's principal activities are in the retailing of Information Technology ("IT") and IT related products that are subject to changing consumer demands. As at 31 December 2019, the group had inventories of $34,491,000 (2018: $37,939,000) carried on its statement of financial position. The cost of inventories may not be recoverable in full if those inventories are damaged, or if they become obsolete, or if their selling prices have declined. Judgement is required to assess the appropriate level of allowance for obsolete inventories which may be ultimately sold below cost or remained unsold as a result of a reduction in consumer demand.

INDEPENDENT AUDITOR'S REPORT

To the Members of Challenger Technologies Limited

The estimate of allowance for obsolete inventories is based on the age of these inventories, prevailing market conditions in the IT and related products retail industry and historical allowance experience, which requires management's judgement. Management applies judgement in determining the appropriate allowance for obsolete inventories based upon a detailed technical assessment of inventories concerned, consideration of future demand and future selling price for the products and ageing analysis of inventories. This methodology relies upon assumptions made in determining appropriate allowance percentages for categories of inventories.

Our procedures include:

- Comparing the net realisable value of a sample of products to subsequent selling prices;
- Reviewing a sample of reseller agreements with suppliers that includes a price protection policy that allows the group to claim from manufacturers' price differences between the original and revised retail prices;
- Reviewing the inventories turnover days and ageing of inventories to assess if there were any significant build up of aged inventories;
- Reviewing the appropriateness of the inventory allowance policy adopted by management (taking into consideration the historical information and management's technical assessment) and the group's adherence to it; and
- Assessing the adequacy of disclosures made in the financial statements.

Other information

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

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

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

Responsibilities of management and directors for the financial statements

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

INDEPENDENT AUDITOR'S REPORT

To the Members of Challenger Technologies Limited

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

(a) 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.

(b) 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.

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

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

(e) 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.

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

INDEPENDENT AUDITOR'S REPORT

To the Members of Challenger Technologies Limited

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

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

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

Report on other legal and regulatory requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Woo E-Sah.

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

18 March 2020

Effective from reporting year ended 31 December 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year Ended 31 December 2019

	Notes	Group 2019 $'000	Group 2018 $'000
Revenue	5	329,570	320,168
Other income and gains	6	1,535	1,276
Changes in inventories of finished goods		(3,300)	4,431
Purchase of goods and consumables		(254,795)	(253,128)
Other consumables used		(240)	(159)
Depreciation expense	13	(2,207)	(2,768)
Depreciation of right-of-use-assets	14	(14,576)	–
Employee benefits expense	7	(24,293)	(23,430)
Other expenses	8	(8,104)	(21,913)
Other losses	6	(2,326)	(320)
Profit before tax from continuing operations		21,264	24,157
Income tax expense	9	(3,560)	(4,555)
Profit from continuing operations for the year		17,704	19,602
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations, net of tax	23	24	(16)
Reclassification adjustments for gains/(losses) from equity to profit or loss	17	13	(8)
Fair value changes on debt instruments at FVTOCI, net of tax	17	109	(34)
Other comprehensive income/(loss) for the year, net of tax:		146	(58)
Total comprehensive income for the year		17,850	19,544
Profit attributable to owners of the parent, net of tax		17,624	19,454
Profit attributable to non-controlling interests, net of tax		80	148
Profit net of tax		17,704	19,602
Total comprehensive income attributable to owners of the parent		17,770	19,396
Total comprehensive income attributable to non-controlling interests		80	148
Total comprehensive income		17,850	19,544
Earnings per share		**Cents**	**Cents**
Earnings per share currency unit			
Basic			
Continuing operations	11	5.11	5.64
Diluted			
Continuing operations	11	5.11	5.64

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019

	Notes	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
ASSETS					
Non-current assets					
Property, plant and equipment	13	7,252	7,573	7,083	7,389
Right-of-use assets	14	23,473	–	23,145	–
Investments in subsidiaries	15	–	–	6,135	6,031
Investment in associate	16	–	–	–	–
Other financial assets	17	5,449	6,102	5,140	5,793
Total non-current assets		36,174	13,675	41,503	19,213
Current assets					
Inventories	18	34,491	37,939	34,248	37,785
Trade and other receivables	19	6,722	10,138	5,940	8,247
Other assets	20	5,351	5,460	5,136	5,322
Other financial assets	17	765	503	765	503
Cash and cash equivalents	21	77,890	63,240	69,772	55,610
Total current assets		125,219	117,280	115,861	107,467
Total assets		161,393	130,955	157,364	126,680
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	22	18,775	18,775	18,775	18,775
Retained earnings		84,135	73,415	84,196	73,227
Other reserves	23	(48)	(194)	136	14
Equity, attributable to owners of the parent		102,862	91,996	103,107	92,016
Non-controlling interests		417	337	–	–
Total equity		103,279	92,333	103,107	92,016
Non-current liabilities					
Deferred tax liabilities	9	17	17	–	–
Financial liabilities – lease liabilities	24	12,284	–	12,107	–
Other liabilities	25	2,035	2,759	705	1,368
Total non-current liabilities		14,336	2,776	12,812	1,368
Current liabilities					
Other liabilities	25	6,153	7,735	5,219	6,634
Provisions	26	2,067	1,955	2,067	1,955
Financial liabilities – lease liabilities	24	11,403	–	11,246	–
Trade and other payables	27	19,988	21,569	19,086	20,456
Income tax payable		4,167	4,587	3,827	4,251
Total current liabilities		43,778	35,846	41,445	33,296
Total liabilities		58,114	38,622	54,257	34,664
Total equity and liabilities		161,393	130,955	157,364	126,680

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

Year Ended 31 December 2019

	Total Equity $'000	Attributable to Parent sub-total $'000	Share Capital $'000	Retained Earnings $'000	Other Reserves $'000	Non-controlling Interests $'000
Group						
Current year:						
Opening balance at 1 January 2019	92,333	91,996	18,775	73,415	(194)	337
Changes in equity:						
Total comprehensive income for the year	17,837	17,757	–	17,624	133	80
Reclassification adjustment on loss of debt instruments at FVTOCI	13	13	–	–	13	–
Dividends paid (Note 12)	(6,904)	(6,904)	–	(6,904)	–	–
Closing balance at 31 December 2019	103,279	102,862	18,775	84,135	(48)	417
Previous year:						
Opening balance at 1 January 2018	84,332	83,993	18,775	65,354	(136)	339
Changes in equity:						
Total comprehensive income for the year	19,552	19,404	–	19,454	(50)	148
Reclassification adjustment on gain of debt instruments at FVTOCI	(8)	(8)	–	–	(8)	–
Dividends paid (Notes 12 & 15)	(11,543)	(11,393)	–	(11,393)	–	(150)
Closing balance at 31 December 2018	92,333	91,996	18,775	73,415	(194)	337

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

Year Ended 31 December 2019

	Total Equity $'000	Share Capital $'000	Retained Earnings $'000	Other Reserves $'000
Company				
Current year:				
Opening balance at 1 January 2019	92,016	18,775	73,227	14
Changes in equity:				
Total comprehensive income for the year	17,982	–	17,873	109
Reclassification adjustment on loss of debt asset instruments at FVTOCI from reserves	13	–	–	13
Dividends paid (Note 12)	(6,904)	–	(6,904)	–
Closing balance at 31 December 2019	103,107	18,775	84,196	136
Previous year:				
Opening balance at 1 January 2018	83,997	18,775	65,166	56
Changes in equity:				
Total comprehensive income for the year	19,420	–	19,454	(34)
Reclassification adjustment on gain of debt asset instruments at FVTOCI from reserves	(8)	–	–	(8)
Dividends paid (Note 12)	(11,393)	–	(11,393)	–
Closing balance at 31 December 2018	92,016	18,775	73,227	14

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2019

	Group	
	2019	**2018**
	$'000	**$'000**
Cash flows from operating activities		
Profit before tax	21,264	24,157
Adjustments for:		
Depreciation of property, plant and equipment	2,207	2,768
Depreciation of right-of-use assets	14,576	–
Losses on disposal of plant and equipment	3	–
Losses on disposal of debt asset instruments at FVTOCI	13	1
Interest income	(1,272)	(802)
Interest expense	618	–
Net effect of exchange rate changes in consolidating foreign operations	24	(16)
Operating cash flows before working capital changes	37,433	26,108
Trade and other receivables	3,415	(1,906)
Other assets	109	(312)
Inventories	3,449	(4,532)
Trade and other payables	(1,581)	(703)
Provisions	(58)	(61)
Other liabilities	(2,306)	(1,133)
Net cash flows from operations	40,461	17,461
Income taxes paid	(3,980)	(3,114)
Net cash flows from operating activities	36,481	14,347
Cash flows from investing activities		
Interest received	1,272	802
Addition in debt asset instruments at FVTOCI	–	(3,013)
Proceeds from disposal of debt asset instruments at FVTOCI	500	251
Purchase of plant and equipment (Note 21A)	(1,719)	(836)
Net cash flows used in investing activities	53	(2,796)
Cash flows from financing activities		
Lease liabilities	(14,980)	–
Dividends paid to equity owners	(6,904)	(11,393)
Dividends paid to non-controlling interests	–	(150)
Net cash flows used in financing activities	(21,884)	(11,543)
Net increase in cash and cash equivalents	14,650	8
Cash and cash equivalents, consolidated statement of cash flows, beginning balance	63,240	63,232
Cash and cash equivalents, consolidated statement of cash flows, ending balance (Note 21)	77,890	63,240

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

1. General

The company is incorporated in Singapore with limited liability. It is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The financial statements are presented in Singapore dollars and they cover the company (referred to as "parent") and the subsidiaries.

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors. The directors have the power to amend and reissue the financial statements.

The principal activities of the company are to provide IT products and services through the sale of IT and related products.

The principal activities of the subsidiaries and associate are described in Notes 15 and 16 to the financial statements.

The registered office is: 1 Ubi Link, Challenger TecHub Singapore 408553. The company is situated in Singapore. The principal place of business is in Singapore.

Statement of compliance with financial reporting standards

These financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (International) ("SFRS(I)s") and the related Interpretations to SFRS(I) ("SFRS(I) INT") as issued by the Singapore Accounting Standards Council. They are in compliance with the provisions of the Companies Act, Chapter 50 and with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

Accounting convention

The financial statements are prepared on a going concern basis under the historical cost convention except where a financial reporting standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. The accounting policies in the financial reporting standards may not be applied when the effect of applying them is not material. The disclosures required by financial reporting standards may not be provided if the information resulting from that disclosure is not material.

Basis of preparation of the financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies. The areas requiring management's most difficult, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed at the end of this footnote, where applicable.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

1. General (Continued)

Basis of presentation

The consolidated financial statements include the financial statements made up to the end of the reporting year of the company and all of its subsidiaries. The consolidated financial statements are the financial statements of the group (the parent and its subsidiaries) presented as those of a single economic entity and are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions are eliminated on consolidation. Subsidiaries are consolidated from the date the reporting entity obtains control of the investee and cease when the reporting entity loses control of the investee.

Changes in the group's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity as transactions with owners in their capacity as owners. The carrying amounts of the group's and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. When the group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at fair value at the date when control is lost and is subsequently accounted as available-for-sale financial assets in accordance with the financial reporting standard on financial instruments.

The company's separate financial statements have been prepared on the same basis, and as permitted by the Companies Act, Chapter 50, the company's separate statement of profit or loss and other comprehensive income is not presented.

2. Significant accounting policies and other explanatory information

2A. Significant accounting policies

Revenue recognition

The financial reporting standard on revenue from contracts with customers establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer (which excludes estimates of variable consideration that are subject to constraints, such as right of return exists, trade discounts, volume rebates and changes to the transaction price arising from modifications), net of any related sales taxes and excluding any amounts collected on behalf of third parties. An asset (goods or services) is transferred when or as the customer obtains control of that asset. As a practical expedient the effects of any significant financing component is not adjusted if the payment for the good or service will be within one year.

Sale of goods – Revenue is recognised at a point in time when the performance obligation is satisfied by transferring a promised good or service to the customer. Control of the goods is transferred to the customer, generally on delivery of the goods (in this respect, incoterms are considered).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2A. Significant accounting policies (Continued)

Revenue recognition (Continued)

Services – Revenue from service orders and term projects is recognised when the entity satisfies the performance obligation at a point in time generally when the significant acts have been completed and when transfer of control occurs or for services that are not significant transactions revenue is recognised as the services are provided.

Distinct goods or services in a series – For distinct goods or services in a series such as routine or recurring service contracts where the promise under the contract is for a specified quantity of goods or services that meets the over time criteria or is a stand-ready or single continuous service and if the nature of each good or service is distinct, substantially the same and has the same pattern of transfer or each time increment is distinct, then revenue is recognised at the amount that the entity has the right to bill a fixed amount for each unit of goods or service provided.

The consideration received from the sale of goods to customers under the customer loyalty programme is allocated to the goods sold and the points issued (award credits) that are expected to be redeemed. The consideration allocated to the award credits is measured at the fair value of the points. It is recognised as a contract liability on the statement of financial position and recognised as revenue when the points are redeemed, have expired or are no longer expected to be redeemed. The amount of revenue recognised is based on the number of award credits that have been redeemed, relative to the total number expected to be redeemed.

Warranty service – Revenue from warranty services are recognised rateably over the warranty period; warranty-related costs are recognised as incurred. The unearned warranty service revenues are recognised as a liability on the statement of financial position.

Membership administration – Fees from membership administration are recognised rateably over the membership period. The unearned membership administration fees are recognised as a contract liability on the statement of financial position.

Rental income is recognised on a time-proportion basis that takes into account the effective yield on the asset on a straight-line basis over the lease term.

Other income

Interest income is recognised using the effective interest method.

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the conditions attaching to them will be complied with and that the grants will be received. Grants in recognition of specific expenses are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs that they are intended to compensate. The grant related to assets is presented in the statement of financial position by recognising the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset and in the proportions in which depreciation expense on those assets is recognised.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2A. Significant accounting policies (Continued)

Employee benefits

Contributions to a defined contribution retirement benefit plan are recorded as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it is obligated to contribute for the Singapore employees to an independently administered fund (such as the Central Provident Fund in Singapore, a government managed defined contribution retirement benefit plan). Certain subsidiaries overseas have defined contribution retirement benefit plans in which employees are entitled to join upon fulfilling certain conditions. The assets of the fund may or may not be held separately from those of the entity in an independently administered fund. The entity contributes an amount equal to a fixed percentage of the salary of each participating employee. For employee leave entitlement the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur. A liability for bonuses is recognised where the entity is contractually obliged or where there is constructive obligation based on past practice.

Foreign currency transactions

The functional currency is the Singapore dollar as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At each end of the reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value measurement dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss except when a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. The presentation is in the functional currency.

Translation of financial statements of other entities

Each entity in the group determines the appropriate functional currency as it reflects the primary economic environment in which the relevant reporting entity operates. In translating the financial statements of such an entity for incorporation in the consolidated financial statements in the presentation currency the assets and liabilities denominated in other currencies are translated at end of the reporting year rates of exchange and the income and expense items for each statement presenting profit or loss and other comprehensive income are translated at average rates of exchange for the reporting year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of that relevant reporting entity.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2A. Significant accounting policies (Continued)

Income tax

The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the reporting year in respect of current tax and deferred tax. Current and deferred income taxes are recognised as income or as an expense in profit or loss unless the tax relates to items that are recognised in the same or a different period outside profit or loss. For such items recognised outside profit or loss the current tax and deferred tax are recognised (a) in other comprehensive income if the tax is related to an item recognised in other comprehensive income and (b) directly in equity if the tax is related to an item recognised directly in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at each end of the reporting year and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability or asset is recognised for all taxable temporary differences associated with investments in subsidiaries and associates except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

Property, plant and equipment

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight-line method to allocate the gross carrying amounts of the assets less their residual values over their estimated useful lives of each part of an item of these assets. The annual rates of depreciation are as follows:

Leasehold property	–	3.8%
Renovations	–	12.5% to 33%
Plant and equipment	–	10% to 100%

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising from the derecognition of an item of property, plant and equipment is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the reporting year and, if expectations differ significantly from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2A. Significant accounting policies (Continued)

Property, plant and equipment (Continued)

Cost also includes acquisition cost, borrowing cost capitalised and any cost directly attributable to bringing the asset or component to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are recognised as an asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred.

Cost includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. See Note 26 on non-current provisions.

Right-of-use assets

The right-of-use assets are accounted and presented as if they were owned such as property plant and equipment. The annual rates of depreciation are as follows:

Retail outlets	–	33.3%
Office spaces	–	50%

Leases

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A right-of-use asset is capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease is also recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. The right-of-use asset is depreciated over the earlier of the end of the useful life of the right-of-use asset or the end of the lease term and an interest expense on the recognised lease liability (included in finance costs). For short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office equipment), an accounting policy choice exists under the lease standard whereby the lease payments are expensed to profit or loss as incurred on a straight line basis over the remaining lease term.

Lessor

As a lessor the reporting entity classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and it is presented in its statement of financial position as a receivable at an amount equal to the net investment in the lease. For a finance lease the finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment in the lease. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Lease receipts from operating leases are recognised as income on either a straight-line basis or another systematic basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2A. Significant accounting policies (Continued)

Subsidiaries

A subsidiary is an entity including unincorporated and special purpose entity that is controlled by the reporting entity and the reporting entity 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. The existence and effect of substantive potential voting rights that the reporting entity has the practical ability to exercise (that is, substantive rights) are considered when assessing whether the reporting entity controls another entity.

In the reporting entity's separate financial statements, an investment in a subsidiary is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for a subsidiary 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. The carrying value and the net book value of the investment in a subsidiary are not necessarily indicative of the amount that would be realised in a current market exchange.

Associates

An associate is an entity including an unincorporated entity in which the reporting entity has a significant influence and that is neither a subsidiary nor a joint arrangement of the reporting entity. 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. An investment in an associate includes goodwill on acquisition, which is accounted for in accordance with the financial reporting standard on business combinations. However the entire carrying amount of the investment is tested under the financial reporting standard on impairment, by comparing its recoverable amount (higher of value in use and fair value) with its carrying amount, whenever application of the requirements in the financial reporting standard on financial instruments indicates that the investment may be impaired.

In the consolidated financial statements, the accounting for investments in an associate is on the equity method. Under the equity method the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The carrying value and the net book value of the investment in the associate are not necessarily indicative of the amounts that would be realised in a current market exchange. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. Losses of an associate in excess of the reporting entity's interest in the relevant associate are not recognised except to the extent that the reporting entity has an obligation. Profits and losses resulting from transactions between the reporting entity and an associate are recognised in the financial statements only to the extent of unrelated reporting entity's interests in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the reporting entity. The reporting entity discontinues the use of the equity method from the date that when its investment ceases to be an associate and accounts for the investment in accordance with the financial reporting standard on financial instruments from that date. Any gain or loss is recognised in profit or loss. Any investment retained in the former associate is measured at fair value at the date that it ceases to be an associate.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2A. Significant accounting policies (Continued)

Associates (Continued)

In the company's separate financial statements, an investment in an associate is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for an associate 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. The carrying value and the net book value of an investment in the associate are not necessarily indicative of the amounts that would be realised in a current market exchange.

Business combinations

Business combinations are accounted for by applying the acquisition method of accounting. There were no acquisitions during the reporting year.

Non-controlling interests

The non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to the reporting entity as the parent. The non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. For each business combination, any non-controlling interest in the acquiree (subsidiary) is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Where the non-controlling interest is measured at fair value, the valuation techniques and key model inputs used are disclosed in the relevant note. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Inventories

Inventories are measured at the lower of cost (first in first out method) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. A write down on cost is made where the cost is not recoverable or if the selling prices have declined. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2A. Significant accounting policies (Continued)

Impairment of non-financial assets

Irrespective of whether there is any indication of impairment, an annual impairment test is performed at about the same time every year on an intangible asset with an indefinite useful life or an intangible asset not yet available for use. The carrying amount of other non-financial assets is reviewed at each end of the reporting year for indications of impairment and where an asset is impaired, it is written down through profit or loss to its estimated recoverable amount. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. When the fair value less costs of disposal method is used, any available recent market transactions are taken into consideration. When the value in use method is adopted, in assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each end of the reporting year non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been measured, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial instruments

Recognition and derecognition of financial instruments:

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the entity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires. At initial recognition the financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification and measurement of financial assets:

#1. Financial asset classified as measured at amortised cost: A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL), that is (a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Typically trade and other receivables, bank and cash balances are classified in this category.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2A. Significant accounting policies (Continued)

Financial instruments (Continued)

#2. Financial asset that is a debt asset instrument classified as measured at fair value through other comprehensive income (FVTOCI): A debt asset instrument is measured at fair value through other comprehensive income (FVTOCI) only if it meets both of the following conditions and is not designated as at FVTPL, that is (a): the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets are not reclassified subsequent to their initial recognition, except when, and only when, the reporting entity changes its business model for managing financial assets (expected to be rare and infrequent events). The previously recognised gains, losses, or interest cannot be restated. When these financial assets are derecognised, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

#3. Financial asset that is an equity investment measured at fair value through other comprehensive income (FVTOCI): On initial recognition of an equity investment that is not held for trading, an irrevocably election may be made to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Fair value changes are recognised in OCI but dividends are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. The gain or loss that is presented in OCI includes any related foreign exchange component arising on non-monetary investments (eg, equity instruments). On disposal, the cumulative fair value changes are not recycled to profit or loss but remain in reserves within equity. The weighted average or specific identification method is used when determining the cost basis of equities being disposed of.

#4. Financial asset classified as measured at fair value through profit or loss (FVTPL): There were no financial assets classified in this category at reporting year end date.

Classification and measurement of financial liabilities:

Financial liabilities are classified as at fair value through profit or loss (FVTPL) in either of the following circumstances: (1) the liabilities are managed, evaluated and reported internally on a fair value basis; or (2) the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. All other financial liabilities are carried at amortised cost using the effective interest method. Reclassification of any financial liability is not permitted.

Cash and cash equivalents

Cash and cash equivalents include bank and cash balances, on demand deposits and any highly liquid debt instruments purchased with an original maturity of three months or less. For the statement of cash flows the item includes cash and cash equivalents less cash subject to restriction and bank overdrafts payable on demand, if any, that form an integral part of cash management.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2A. Significant accounting policies (Continued)

Fair value measurement

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, market observable data to the extent possible is used. If the fair value of an asset or a liability is not directly observable, an estimate is made using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (eg by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account. The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value.

Fair values are categorised into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety: Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices). Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value. The fair values of non-current financial instruments may not be disclosed separately unless there are significant differences at the end of the reporting year and in the event the fair values are disclosed in the relevant notes to the financial statements.

2B. Other explanatory information

Segment reporting

The group discloses financial and descriptive information about its consolidated reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing the performance. Generally, financial information is reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2B. Other explanatory information (Continued)

Provisions

A liability or provision is recognised when there is 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 a reliable estimate can be made of the amount of the obligation. A provision is made using best estimates of the amount required in settlement and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Changes in estimates are reflected in profit or loss in the reporting year they occur.

2C. Critical judgements, assumptions and estimation uncertainties

The critical judgements made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities currently or within the next reporting year are discussed below. These estimates and assumptions are periodically monitored to ensure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

Net realisable value of inventories:

A review is made on inventory for excess inventory and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. The review requires management to consider the price protection and other return policies with suppliers and future demand for the products. In any case the realisable value represents the best estimate of the recoverable amount and is based on the acceptable evidence available at the end of the reporting year and inherently involves estimates regarding the future expected realisable value. The usual considerations for determining the amount of allowance or write-down include ageing analysis, technical assessment and subsequent events. In general, such an evaluation process requires significant judgement and materially affects the carrying amount of inventories at the end of the reporting year. Possible changes in these estimates could result in revisions to the stated value of the inventories. The carrying amount of inventories at the end of the reporting year is disclosed in Note 18 on inventories.

Customer loyalty programme:

The group operates the ValueClub, Challenger membership scheme. The group allocates the consideration received from the sale of goods to the goods sold and the points issued under its ValueClub Reward Points Customer Loyalty Programme (the “Programme”). The consideration allocated to the points issued is measured at their fair values. Fair values are determined by considering, among others, the following factors: the range of products available to the customers, the prices at which the group sells the products which can be redeemed and the changing patterns in the redemption rates.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2C. Critical judgements, assumptions and estimation uncertainties (Continued)

The carrying amount of the group's deferred revenue in relation to the Programme at the end of the reporting year is disclosed in Note 25C on other liabilities.

Useful lives of property, plant and equipment:

The estimates for the useful lives and related depreciation charges for property, plant and equipment are based on commercial and other factors which could change significantly as a result of innovations and in response to market conditions. The depreciation charge is increased where useful lives are less than previously estimated lives, or the carrying amounts written off or written down for technically obsolete items or assets that have been abandoned. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amount of the specific asset or class of assets at the end of the reporting year affected by the assumption is disclosed in Note 13 on property, plant and equipment.

Measurement of impairment of subsidiary:

Where an investee is in net equity deficit and or has suffered losses a test is made whether the investment in the investee has suffered any impairment. This determination requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. The carrying amount of the specific asset or class of assets at the end of the reporting year affected by the assumption is $6,135,000.

Unquoted equity shares at cost through OCI:

Some of the equity shares at cost through OCI are not based on fair values as there is significant measurement uncertainty involved in this measurement of fair value. The uncertainty may be caused by insufficient more recent information that is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. Judgement is required to assess whether indicators of such a nature that cost might be the closer proxy fair value. When information about the performance and operations of the investee becomes available after the date of initial recognition and that relevant factors exist, they may indicate that cost might not be representative of fair value. The carrying amount is disclosed in Note 17 on other financial assets.

Debt asset instruments measured at FVTOCI:

The classification of these debt asset instruments as measured at FVTOCI requires significant judgement. They must not be designated as at FVTPL. Judgement is required in the assessment of the conditions that the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If the conditions are not met, the accounting treatment would then be as for FVTPL or at amortised cost. The amount at the end of the reporting year is disclosed in Note 17 on other financial assets.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2. Significant accounting policies and other explanatory information (Continued)

2C. Critical judgements, assumptions and estimation uncertainties (Continued)

Impairment of right-of-use assets

Significant judgement is applied by management when determining impairment of the right-of-use asset. Impairment is assessed for leased premises that have been or will be vacated in the near future. The impairment is sensitive to changes in estimated future expected sub-lease income and sub-lease period. Judgement is also involved when determining whether sub-lease contracts are financial or operational, as well as when determining lease term for contracts that have extension or termination options. The amount at the end of the reporting year was $23,473,000.

Leases – estimating the incremental borrowing rate

The group cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the group 'would have to pay' which requires estimation when no observable rates are available when they need to be adjusted to reflect the terms and conditions of the leases. The group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

3. Related party relationships and transactions

The financial reporting standard on related party disclosures requires the group to disclose: (a) transactions with its related parties; and (b) relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. A party is related to a party if the party controls, or is controlled by, or can significantly influence or is significantly influenced by the other party.

Intragroup transactions and balances that have been eliminated in these consolidated financial statements are not disclosed as related party transactions and balances below.

The ultimate controlling party is Mr Loo Leong Thye.

3A. Related party transaction:

There are transactions and arrangements between the reporting entity and related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The related party balances and transfer of resources, services or obligations if any are unsecured, without fixed repayment terms and interest or charge unless stated otherwise.

In addition to the transactions and balances disclosed elsewhere in the notes to the financial statements, this item includes the following:

Significant related party transactions:

	Group Other related parties	
	2019	**2018**
	$'000	**$'000**
Fees to a firm in which a director has an interest	34	48

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

3. Related party relationships and transactions (Continued)

3B. Key management compensation:

	Group 2019 $'000	Group 2018 $'000
Salaries and other short-term employee benefits	3,484	3,357

The above amounts are included under employee benefits expense. Included in the above amounts are the following items:

	Group 2019 $'000	Group 2018 $'000
Remuneration of directors of the company	1,900	1,928
Remuneration of directors of the subsidiaries	299	323
Fees to directors of the company	126	122
Fees to directors of a subsidiary	–	2

Further information about the remuneration of individual directors is provided in the report on corporate governance.

Key management personnel include the directors and those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly. The above amounts for key management compensation are for the directors and other key management personnel.

4. Financial information by operating segments

4A. Information about reportable segment profit or loss, assets and liabilities

SFRS(I) 8 requires the disclosure of information about operating segments, products and services, the geographical areas and the major customers. It is a disclosure standard which results in a redesignation of the group's reportable segments, but it has no impact on the reported financial performance or financial position of the group.

For management purposes the group is organised into the following major strategic operating segments that offer different products and services: (1) IT products and services, (2) electronic signage services and (3) telephonic call centre and data management services. Such a structural organisation is determined by the nature of risks and returns associated with each business segment and defines the management structure as well as the internal reporting system. It represents the basis on which the management reports the primary segment information that is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing the performance. They are managed separately because each business requires different strategies.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

4. Financial information by operating segments (Continued)

4A. Information about reportable segment profit or loss, assets and liabilities (Continued)

The segments and the types of products and services are as follows:

The IT products and services segment is involved in retailing a large selection of IT products including personal computers, notebooks, printers, scanners, digital imaging solutions, personal digital assistants, mobile and wireless connectivity solutions, audio-visual and projection equipment, and related peripherals.

The electronic signage services segment is involved in the supply and installation of electronic signages and provision of electronic signage services.

The telephonic call centre and data management services segment carries on the business of telephonic call centre, data management services and direct marketing services.

Inter-segment sales are measured on the basis that the entity actually used to price the transfers. Internal transfer pricing policies of the group are as far as practicable based on market prices. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The management reporting system evaluates performances based on a number of factors. However the primary profitability measurement to evaluate segment's operating results comprises two major financial indicators: (1) earnings from operations before depreciation and amortisation, interest and income taxes (called "Recurring EBITDA") and (2) profit before tax from continuing operations.

The following tables illustrate the information about the reportable segment profit or loss, assets and liabilities.

4B. Profit or loss from continuing operations and reconciliations

	IT products and services $'000	Electronic signage $'000	Telephonic call centre and data management services $'000	Total $'000
Continuing operations 2019				
Revenue by segment				
Total revenue by segment	323,988	894	5,200	330,082
Inter-segment sales and services	(72)	(177)	(263)	(512)
Total revenue	323,916	717	4,937	329,570
Recurring EBITDA	37,158	(306)	541	37,393
Interest income	1,251	–	21	1,272
Interest expense	(606)	–	(12)	(618)
Depreciation	(16,510)	(11)	(262)	(16,783)
Profit before tax from continuing operations	21,293	(317)	288	21,264
Income tax expense				(3,560)
Profit from continuing operations				17,704

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

4. Financial information by operating segments (Continued)

4B. Profit or loss from continuing operations and reconciliations (Continued)

	IT products and services $'000	Electronic signage $'000	Telephonic call centre and data management services $'000	Total $'000
Continuing operations 2018				
Revenue by segment				
Total revenue by segment	313,626	995	5,898	320,519
Inter-segment sales and services	(77)	(4)	(270)	(351)
Total revenue	313,549	991	5,628	320,168
Recurring EBITDA	25,439	73	611	26,123
Interest income	780	–	22	802
Depreciation	(2,636)	(6)	(126)	(2,768)
Profit before tax from continuing operations	23,583	67	507	24,157
Income tax expense				(4,555)
Profit from continuing operations				19,602

4C. Assets and reconciliations

	IT products and services $'000	Electronic signage $'000	Telephonic call centre and data management services $'000	Unallocated $'000	Total $'000
2019					
Total assets for reportable segments	89,176	942	3,694	–	93,812
Unallocated:					
Cash and cash equivalents	–	–	–	61,367	61,367
Other financial assets	–	–	–	6,214	6,214
Total group assets	89,176	942	3,694	67,581	161,393
2018					
Total assets for reportable segments	70,973	1,287	2,533	–	74,793
Unallocated:					
Cash and cash equivalents	–	–	–	49,557	49,557
Other financial assets	–	–	–	6,605	6,605
Total group assets	70,973	1,287	2,533	56,162	130,955

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

4. Financial information by operating segments (Continued)

4D. Liabilities and reconciliations

	IT products and services $'000	Electronic signage $'000	Telephonic call centre and data management services $'000	Unallocated $'000	Total $'000
2019					
Total liabilities for reportable segments	50,444	180	3,306	–	53,930
Unallocated:					
Deferred and current tax liabilities	–	–	–	4,184	4,184
Total group liabilities	50,444	180	3,306	4,184	58,114
2018					
Total liabilities for reportable segments	30,410	202	3,406	–	34,018
Unallocated:					
Deferred and current tax liabilities	–	–	–	4,604	4,604
Total group liabilities	30,410	202	3,406	4,604	38,622

4E. Other material items and reconciliations

	IT products and services $'000	Electronic signage $'000	Telephonic call centre and data management services $'000	Total $'000
Expenditure for non-current assets				
2019	1,796	43	50	1,889
2018	839	–	127	966

4F. Geographical information

	Revenue		Non-current assets	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Singapore	329,570	320,168	7,248	7,563
People's Republic of China	–	–	4	10
Subtotal for all foreign countries	–	–	4	10
Total continuing operations	329,570	320,168	7,252	7,573

Revenues are attributed to countries on the basis of the customer's location, irrespective of the origin of the goods and services. The non-current assets are analysed by the geographical area in which the assets are located. The non-current assets exclude any financial assets and right-of-use assets.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

4. Financial information by operating segments (Continued)

4G. Information about major customers

There are no customers with revenue transactions of over 10% of the group revenue.

5. Revenue

Revenue from contract with customers

A. Revenue classified by type of good or service:

	Group	
	2019	**2018**
	$'000	**$'000**
IT products and services	321,611	311,678
Electronic signage services – rendering of services	717	991
Rental income	2,305	1,871
Telephonic call centre and data management services	4,937	5,628
Total revenue	329,570	320,168

B. Revenue classified by duration of contract:

	Group	
	2019	**2018**
	$'000	**$'000**
Short-term contracts	320,333	311,529
Long-term contracts	9,237	8,639
Total revenue	329,570	320,168

C. Revenue classified by timing of revenue recognition:

	Group	
	2019	**2018**
	$'000	**$'000**
Point in time	319,726	311,644
Over time	9,844	8,524
Total revenue	329,570	320,168

The customers are commercial consumers, retailers, wholesalers and government agencies.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

6. Other income and gains and (other losses)

	Group	
	2019 $'000	2018 $'000
Allowance for impairment on trade receivables (Note 19)	–	(7)
Expenses relating to short-term leases and leases of low-value assets	(1,293)	–
Foreign exchange adjustment gains	24	27
Government grant income	–	292
Interest income from financial institutions	1,272	802
Inventories written off (Note 18)	(374)	(312)
Inventories (written down)/write down reversal (Note 18)	(44)	48
Losses on disposal of investments in debt asset instruments at FVTOCI	(13)	(1)
Loss on disposal of plant and equipment	(3)	–
Sundry income	239	107
Variable lease payments	(599)	–
Net	(791)	956
Presented in profit or loss as:		
Other income and gains	1,535	1,276
Other losses	(2,326)	(320)
Net	(791)	956

7. Employee benefits expense

	Group	
	2019 $'000	2018 $'000
Short term employee benefits expense	21,194	20,440
Contributions to defined contribution plans	3,099	2,990
Total employee benefits expense	24,293	23,430

8. Other expenses

The major components and other selected components include the following:

	Group	
	2019 $'000	2018 $'000
Rental expenses	–	14,767
Cards surcharges	3,613	3,373

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

9. Income tax

9A. Components of tax expense recognised in profit or loss include:

	Group	
	2019 $'000	2018 $'000
Current tax expense:		
Current tax expense	3,848	4,249
(Over)/Under adjustments in respect of prior periods	(288)	311
Subtotal	3,560	4,560
Deferred tax income:		
Deferred tax income	–	(5)
Subtotal	–	(5)
Total income tax expense	3,560	4,555

The income tax in profit or loss varied from the amount of income tax amount determined by applying the Singapore income tax rate of 17.0% (2018: 17.0%) to profit or loss before income tax as a result of the following differences:

	Group	
	2019 $'000	2018 $'000
Profit before tax	21,264	24,157
Income tax expense at the above rate	3,615	4,107
Expenses not deductible for tax purposes	345	232
Stepped income exemption	(58)	(92)
(Over)/Under adjustments to tax in respect of prior periods	(288)	311
Previously unrecognised deferred tax assets recognised this year	–	35
Others	(54)	(38)
Total income tax expense	3,560	4,555

There are no income tax consequences of dividends to owners of the company.

9B. Deferred tax income recognised in profit or loss includes:

	Group	
	2019 $'000	2018 $'000
Excess of book over tax depreciation on plant and equipment	(127)	(21)
Deferred revenue	(5)	–
Provisions	(15)	(7)
Tax loss	(36)	(4)
Unrecognised deferred tax assets	203	35
Others	20	(8)
Total deferred tax income recognised in profit or loss	–	(5)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

9. Income tax (Continued)

9C. Deferred tax balance in the statements of financial position:

	Group		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Deferred tax liabilities:				
Excess of net book value of plant and equipment over tax values	(214)	(341)	(199)	(323)
Total deferred tax liabilities	(214)	(341)	(199)	(323)
Deferred tax assets:				
Deferred revenue	332	327	332	327
Provisions	67	52	67	52
Tax losses	386	350	–	–
Unrecognised deferred tax assets	(608)	(405)	(200)	(56)
Others	20	–	–	–
Total deferred tax assets	197	324	199	323
Net total of deferred tax liabilities	(17)	(17)	–	–

It is impracticable to estimate the amount expected to be settled or used within one year.

A subsidiary of the group has unutilised tax losses of approximately $1,546,000 (2018: $2,068,000), available to offset against future profits. No deferred tax assets have been recognised on these tax losses as the future profit stream of the subsidiary are not probable. The realisation of the future income tax benefits from tax carryforwards is available for unlimited future period and subject to applicable laws and agreement by relevant tax authorities, except that unutilised tax losses of $1,546,000 (2018: $2,068,000) which is related to a subsidiary in the People's Republic of China, whereby the unutilised tax losses carryforwards can only be carried forward for a period of 5 years from the date in which the losses were incurred. These unutilised tax losses will expire as follows:–

	Unutilised tax losses	
	2019	**2018**
	$'000	**$'000**
Year of expiry		
2019	–	607
2020	570	570
2021	822	822
2022	7	7
2023	62	62
2024	85	–
	1,546	2,068

Temporary differences arising in connection with interests in subsidiaries and associates are insignificant.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

10. Items in the consolidated statement of profit or loss and other comprehensive income

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, this item includes the following charges:

	Group	
	2019 $'000	2018 $'000
Audit fees to independent auditor of the company	116	111
Audit fees to other independent auditors	12	11
Other fees to the independent auditor of the company	63	26
Other fees to the other independent auditors	1	1

11. Earnings per share

The following table illustrates the numerators and denominators used to calculate basic and diluted earnings per share of no par value:

	Group	
	2019 $'000	2018 $'000
Numerators: Earnings attributable to equity holders		
Continuing operations: Attributable to equity holders	17,624	19,454
	No: '000	No: '000
Denominators: Weighted average number of equity shares Basic	345,208	345,208

The weighted average number of equity shares refers to shares in circulation during the reporting period.

Basic earnings per share ratio is based on the weighted average number of common shares outstanding during each period. There is no dilution of earnings per share as there are no dilutive potential ordinary shares outstanding as at the end of the reporting year.

12. Dividends on equity shares

	Rate per share – cents		Company	
	2019	2018	2019 $'000	2018 $'000
Final tax exempt (1-tier) dividend paid	2.00	2.20	6,904	7,596
Interim exempt (1-tier) dividend paid	–	1.10	–	3,797
Total dividends paid in the year			6,904	11,393

The directors have proposed that a final dividend of 1.50 cents per share with a total of $5,178,000 be paid to shareholders after the Annual General Meeting. This dividend is subject to approval by shareholders at the next Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable in respect of all ordinary shares in issue at the end of the reporting year and including any new qualifying shares issued up to the date the dividend becomes payable. There are no income tax consequences of the dividends to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

13. Property, plant and equipment

Group	Leasehold property $'000	Renovations $'000	Plant & equipment $'000	Total $'000
Cost:				
At 1 January 2018	7,200	8,276	16,394	31,870
Additions	–	497	469	966
Disposals	–	(19)	(292)	(311)
At 31 December 2018	7,200	8,754	16,571	32,525
Additions	–	747	1,142	1,889
Disposals	–	(537)	(812)	(1,349)
At 31 December 2019	7,200	8,964	16,901	33,065
Accumulated depreciation:				
At 1 January 2018	2,493	6,598	13,404	22,495
Depreciation for the year	277	870	1,621	2,768
Disposals	–	(19)	(292)	(311)
At 31 December 2018	2,770	7,449	14,733	24,952
Depreciation for the year	277	758	1,172	2,207
Disposals	–	(534)	(812)	(1,346)
At 31 December 2019	3,047	7,676	15,093	25,813
Carrying value:				
At 1 January 2018	4,707	1,678	2,990	9,375
At 31 December 2018	4,430	1,305	1,838	7,573
At 31 December 2019	4,153	1,291	1,808	7,252

Company	Leasehold property $'000	Renovations $'000	Plant & equipment $'000	Total $'000
Cost:				
At 1 January 2018	7,200	8,139	15,497	30,836
Additions	–	427	417	844
Disposals	–	–	(149)	(149)
At 31 December 2018	7,200	8,566	15,765	31,531
Additions	–	711	1,093	1,804
Disposals	–	(537)	(809)	(1,346)
At 31 December 2019	7,200	8,740	16,049	31,989
Accumulated depreciation:				
At 1 January 2018	2,493	6,498	12,672	21,663
Depreciation for the year	277	853	1,498	2,628
Disposals	–	–	(149)	(149)
At 31 December 2018	2,770	7,351	14,021	24,142
Depreciation for the year	277	726	1,099	2,102
Disposals	–	(534)	(804)	(1,338)
At 31 December 2019	3,047	7,543	14,316	24,906
Carrying value:				
At 1 January 2018	4,707	1,641	2,825	9,173
At 31 December 2018	4,430	1,215	1,744	7,389
At 31 December 2019	4,153	1,197	1,733	7,083

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

13. Property, plant and equipment (Continued)

Details of leasehold property:

Description/Location	Tenure of land/ (Gross Floor Area)	Tenure of land/ last valuation date
Singapore:		
1 Ubi Link, Challenger Techub, Singapore 408553	Property: 30 years from 2004/ (2,500 square metres)	Industrial building/ Not revalued

14. Right-of-use assets

The right-of-use assets in the statement of financial position are as follows:

Group	**Retail outlets $'000**	**Office space $'000**	**Total $'000**
Cost:			
At 1 January 2019 on adoption of SFRS(I) 16	22,991	–	22,991
Additions	14,573	485	15,058
At 31 December 2019	37,563	485	38,049

	Retail outlets $'000	**Office space $'000**	**Total $'000**
Accumulated depreciation:			
At 1 January 2019	–	–	–
Depreciation for the year	14,419	157	14,576
At 31 December 2019	14,419	157	14,576
Carrying value:			
At 1 January 2019	22,991	–	22,991
At 31 December 2019	23,145	328	23,473

Company	**Retail outlets $'000**	**Office space $'000**	**Total $'000**
Cost:			
At 1 January 2019 on adoption of SFRS(I) 16	22,991	–	22,991
Additions	14,573	–	14,573
At 31 December 2019	37,564	–	37,564

	Retail outlets $'000	**Office space $'000**	**Total $'000**
Accumulated depreciation:			
At 1 January 2019	–	–	–
Depreciation for the year	14,419	–	14,419
At 31 December 2019	14,419	–	14,419
Carrying value:			
At 1 January 2019	22,991	–	22,991
At 31 December 2019	23,145	–	23,145

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

14. Right-of-use assets (Continued)

Other information about the leasing activities relating to the right-of-use assets are summarised as follows:

	Group		
	Retail outlets	**Office space**	**Total**
Number of right-of-use assets	41	1	42
Remaining term – range	1 to 3 years	2 years	–
Remaining term – average	2 years	2 years	–
Number of leases with extension options	41	1	–

	Company
	Retail outlets
Number of right-of-use assets	41
Remaining term – range	1 to 3 years
Remaining term – average	2 years
Number of leases with extension options	41

The leases are for retail outlet and office space.

There are restrictions or covenants imposed by the leases to sublet the asset to another party. The right-of-use asset can only be used by the lessee. Unless permitted by the owner, the lease prohibits from selling or pledging the underlying leased assets as security. Typically the leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. For leases over properties the leases require those properties in a good state of repair and return the properties in their original condition at the end of the lease. Insurance, and maintenance fees on right-of-use assets are usually required under the lease contracts.

Management has elected to measure right-of-use assets at the amount of the lease liability on adoption (adjusted for any lease prepayments or accrued lease expenses, onerous lease provisions, and leased assets which have subsequently been sub-leased).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

15. Investments in subsidiaries

	Company	
	2019 $'000	2018 $'000
Unquoted equity shares:		
Balance at beginning of the year	6,031	5,524
Less: Allowance for impairment	(314)	–
Add: Allowance for impairment written back	418	507
Balance at the end of the year	6,135	6,031
Total balance comprising:		
Unquoted equity shares at cost:	10,056	10,056
Allowance for impairment	(3,921)	(4,025)
Balance at the end of the year	6,135	6,031
Movements in allowance for impairment:		
Balance at beginning of the year	4,025	5,146
Impairment loss charge to profit or loss included in other losses	314	–
Impairment loss written back charge to profit or loss included in other gains	(418)	(507)
Impairment allowance used	–	(614)
Balance at end of the year	3,921	4,025
Analysis of amount denominated in non-functional currencies:		
Malaysian Ringgit	818	818
Hong Kong Dollar	238	238

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

15. Investments in subsidiaries (Continued)

The subsidiaries held by the company and its subsidiaries are listed below:

Name of subsidiaries, country of incorporation, place of operations and principal activities (and independent auditors)	Cost in books of the group 2019 $'000	Cost in books of the group 2018 $'000	Effective percentage of equity held 2019 %	Effective percentage of equity held 2018 %
CBD eVision Pte Ltd[a] Singapore Electronic signage business	1,500	1,500	100	100
Challenger Holding (HK) Private Limited[b] Hong Kong Investment holding (Yin Wing Ho & Co.)	238	238	100	100
Challenge Ventures Pte. Ltd.[a] Singapore Other investment holding company and asset or portfolio management	7,500	7,500	100	100
Challenger Technologies (M) Sdn. Bhd.[c][d] Malaysia Dormant	818	818	100	100
	10,056	10,056		
Held through Challenger Holding (HK) Private Limited				
Valore (Shanghai) Limited[e] People's Republic of China Dormant	–	309	–	100
Valore (Shenzhen) Private Limited[b] People's Republic of China Procurement of IT products (Shenzhen Hua Long Certified Public Accountants)	2,145	2,145	100	100
Held through Challenge Ventures Pte. Ltd.				
Incall Systems Pte. Ltd.[a] Singapore Telephonic call centre and data management services	1,069	1,069	70	70
Hachi.Sg Pte. Ltd.[c][d] Singapore Online sale of computer hardware, software and accessories	126	2,000	100	100
Hachi MY Sdn. Bhd.[c][d] Malaysia Online sale of computer hardware, software and accessories	3	3	100	100

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

15. Investments in subsidiaries (Continued)

(a) Audited by RSM Chio Lim LLP, a member of RSM International.

(b) Other independent auditors. Audited by firms of accountants other than member firms of RSM International of which RSM Chio Lim LLP in Singapore is a member. Their names are indicated above.

(c) Not audited as it is immaterial.

(d) In the process of liquidation.

(e) Struck off in 2019.

As is required by Rule 716 of the Listing Manual of The Singapore Exchange Securities Trading Limited the audit committee and the board of directors of the company have satisfied themselves that the appointment of different auditors for certain of its overseas subsidiaries would not compromise the standard and effectiveness of the audit of the group.

In 2019, the increasing performance of subsidiary, Challenge Ventures Pte Ltd, was considered sufficient evidence to reverse the impairment loss. As detailed in this note the test resulted in the partial reversal of $418,000.

In 2019, the decreasing performance of subsidiary, CBD eVision Pte Ltd, was considered sufficient evidence to trigger the impairment test. As detailed in this note the test resulted in the recognition of a loss of $314,000.

In 2018, the increasing performance of subsidiary, CBD eVision Pte Ltd, was considered sufficient evidence to reverse the impairment loss. As detailed in this note the test resulted in the partial reversal of $507,000.

The subsidiary that has non-controlling interests that are considered material to the reporting entity and additional disclosures on them (amounts before inter-company eliminations) is presented below.

	Group	
	2019 $'000	2018 $'000
Name of the subsidiary: Incall Systems Pte. Ltd.		
1. The profit allocated to NCI of the subsidiary during the reporting year	80	148
2. Accumulated NCI of the subsidiary at the end of the reporting year	417	337
3. The summarised financial information of the subsidiary (not adjusted for the percentage ownership held by the group and amounts before inter-company eliminations) is as follows:		
Dividend paid to non-controlling interests	–	150
Current assets	4,294	4,390
Non-current assets	464	191
Current liabilities	1,845	2,050
Non-current liabilities	1,523	1,408
Revenues	5,200	5,898
Profit for the reporting year	286	493
Total comprehensive income	286	493
Operating cash flows, increase/(decrease)	673	(1,038)
Net cash flows, increase/(decrease)	546	(1,644)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

16. Investment in associate

	Group and Company 2019 $'000	2018 $'000
Carrying value:		
Unquoted equity shares at cost	311	311
Less: Allowance for impairment	(311)	(311)
	–	–

The associate held by the company is listed below:

Name of associate, country of incorporation, place of operations and principal activities	**Percentage of equity held by group** 2019 %	2018 %
Challenger Infortech (Beijing) Co., Ltd[(a)] People's Republic of China Dormant	40	40

(a) The financial statements for the associate for the reporting year ended 31 December 2019 and 31 December 2018 were not available. The group has recognised its share of loss up to the cost of investment totalling $311,000 (2018: $311,000) which is not material to the group. The associate is currently dormant and in the process of closure.

17. Other financial assets

	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
Balance is made up of:–				
Investments in debt asset instruments at FVTOCI (Note 17A)	5,905	6,296	5,905	6,296
Unquoted equity shares at cost through OCI (Note 17B)	309	309	–	–
	6,214	6,605	5,905	6,296
Current	765	503	765	503
Non-current	5,449	6,102	5,140	5,793
	6,214	6,605	5,905	6,296
Analysis of amounts denominated in non-functional currency:				
United States Dollar	285	285	–	–

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

17. Other financial assets (Continued)

17A. Investments in debt asset instruments at FVTOCI

17A1. Movements in balances

	Group and Company	
	2019	**2018**
	$'000	**$'000**
Investments in debt asset instruments at FVTOCI:–		
Movements during the year:		
Fair value at beginning of the year	6,296	3,577
Additions	–	3,013
Disposals	(513)	(252)
Loss/(Gain) on disposals, reclassified from equity to profit or loss as a reclassification adjustment	13	(8)
Increase/(Decrease) in fair value through other comprehensive income	109	(34)
Fair value at end of the year	5,905	6,296

During the reporting year, certain investments in debt asset instruments at FVTOCI cost were derecognised as the bond matured (2018: due to early redemption by issuer). The fair value of the investments at the date of derecognition was $500,000 (2018: $259,000). The cumulative loss on disposal of $13,000 (2018: $1,000) is disclosed in Note 6.

17A2. Disclosures relating to investments in debt asset instruments at FVTOCI

		Group and Company	
	Level	**2019**	**2018**
		$'000	**$'000**
Quoted corporate bonds in Singapore			
Quasi-sovereign	1	257	253
Subtotal		257	253
Unquoted corporate bonds in Singapore			
Real estate industry	2	–	503
Transport and logistics industry	2	765	761
Banking industry	2	4,372	4,284
Travel and lodging industry	2	511	495
Subtotal		5,648	6,043
Total		5,905	6,296

The rate of interest for the interest earning bonds ranged between 2.6% to 4.0% (2018: 2.6% to 4.3%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

17. Other financial assets (Continued)

17A. Investments in debt asset instruments at FVTOCI (Continued)

17A2. Disclosures relating to investments in debt asset instruments at FVTOCI (Continued)

A summary of the maturity dates of corporate bonds as at the end of the reporting year is as follows:

	Group and Company	
	2019 **$'000**	**2018** **$'000**
Within 1 year	–	503
1 to 3 years	765	–
After 3 years	5,140	5,793
	5,905	6,296

17A3. Fair value measurements (level 2) recognised in the statement of financial position

Financial instruments traded in over-the-counter market include corporate bonds that are valued based on broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency.

17A4. Sensitivity analysis for price risk:

There are investments in corporate bonds or similar instruments. Such investments are exposed to market price risk arising from uncertainties about future values of the investment securities. Sensitivity analysis: The effect is as follows:

	Group and Company	
	2019 **$'000**	**2018** **$'000**
A hypothetical 10% increase in the market index of quoted corporate bonds would have an effect on pre-tax profit of	26	25
A hypothetical 10% increase in the over-the-counter price of unquoted corporate bonds would have an effect on pre-tax profit of	565	604

For similar price decreases in the fair value of the above financial assets, there would be comparable impacts in the opposite direction.

The hypothetical changes in basis points are not based on observable market data (unobservable inputs).

There were no significant transfers between Level 1 and 2 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

17. Other financial assets (Continued)

17A. Investments in debt asset instruments at FVTOCI (Continued)

17A5. Credit rating of the debt assets instruments at FVTOCI

The debt investments carried at FVTOCI are subject to the expected credit loss model under the standard on financial instruments. The debt investments at FVTOCI are considered to have low credit risk, and the loss allowance recognised during the reporting year is limited to 12 months expected losses. Listed bonds are regarded as of low credit risk if they have an investment grade credit rating with one or more reputable rating agencies. Other bonds are regarded as of low credit risk if they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. The methodology applied for impairment loss depends on whether there has been a significant increase in credit risk.

Ratings of investments in debt assets instruments at FVTOCI:

	Group and Company	
	2019 $'000	2018 $'000
Balances with investment grade credit rating with one or more reputable rating agencies	4,629	4,537
Not rated	1,276	1,759
Total	5,905	6,296

17B. Unquoted equity shares at cost through OCI

17B1. Movements in balances

	Group	
	2019 $'000	2018 $'000
Unquoted equity shares at cost through OCI:–		
Movements during the year:		
Carrying value at beginning of the year	309	309
Cost at end of the year	309	309
Movements in allowance for impairment:		
Balance at beginning of the year	2,303	2,303
Balance at end of the year	2,303	2,303

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

17. Other financial assets (Continued)

17B. Unquoted equity shares at cost through OCI (Continued)

17B2. Disclosures relating to unquoted equity shares at cost through OCI

The information gives a summary of the significant sector concentrations within the investment portfolio including Level 1, 2 and 3 securities:

	Level	Group 2019 $'000	Group 2018 $'000
Unquoted equity shares at cost through OCI:			
Logistics: Singapore	3	24	24
Information technology: United States of America	3	285	285
Total		309	309

The financial reporting standard on financial instruments require that all investments in unquoted equity shares and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. When information about the performance and operations of the investee becomes available after the date of initial recognition and that relevant factors exist, they may indicate that cost might not be representative of fair value. In such cases, the unquoted equity shares have to be measured fair value.

Management has not identified a market for these unquoted investments and it has not made a decision on how and when it intends to dispose of them in the foreseeable future.

18. Inventories

	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
Goods in transit	–	53	–	53
Goods for resale	34,491	37,886	34,248	37,732
	34,491	37,939	34,248	37,785
Inventories are stated after allowance. Movements in allowance:				
Balance at beginning of the year	38	86	38	86
Charged/(Reversed) to profit or loss included in other losses (Note 6)	44	(48)	44	(48)
Balance at end of the year	82	38	82	38
The write-downs of inventories charged to profit or loss included in other losses (Note 6)	374	312	365	312

There are no inventories pledged as security for liabilities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

19. Trade and other receivables

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trade receivables:				
Outside parties	1,291	2,935	1,053	2,097
Less allowance for impairment	–	–	–	–
Net trade receivables – subtotal	1,291	2,935	1,053	2,097
Other receivables:				
Subsidiaries	–	–	2,422	2,438
Less allowance for impairment	–	–	(1,954)	(1,962)
Advance payments to suppliers	4,016	4,994	3,969	4,971
Other receivables	1,415	2,209	450	703
Net other receivables – subtotal	5,431	7,203	4,887	6,150
Total trade and other receivables	6,722	10,138	5,940	8,247
Movements in above allowance:				
Balance at beginning of the year	–	(20)	(1,962)	(1,895)
Reversed/(Charged) to profit or loss included under other losses (Note 6)	–	(7)	8	(67)
Used	–	27	–	–
Balance at end of the year	–	–	(1,954)	(1,962)

The trade receivables are subject to the expected credit loss model under the financial reporting standard on financial instruments. The methodology applied for impairment loss is the simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. No allowance matrix is deemed necessary for the group and company.

(a) Ageing analysis of the trade receivables amounts that are past due as at the end of the reporting year but not impaired:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trade receivables:				
1 to 30 days	136	553	32	18
31 to 60 days	13	81	–	6
Over 60 days	71	112	13	77
Total	220	746	45	101

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

19. Trade and other receivables (Continued)

(b) As at the end of the reporting year there were no amounts that were impaired.

The amounts are written off when there are indications that there is no reasonable expectation of recovery or the failure of a debtor to make contractual payments over an extended period. There are no collateral held as security and other credit enhancements for the trade receivables.

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. As part of the process of setting customer credit limits, different credit terms are used. The average credit period generally granted to trade receivable customers is about 30 to 60 days (2018: 30 to 60 days). But some customers take a longer period to settle the amounts.

Concentration of trade receivable customers as at the end of the reporting year:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Top 1 customer	43	489	31	61
Top 2 customers	85	652	49	120
Top 3 customers	116	713	58	152

The other receivables at amortised cost shown above are subject to the expected credit loss model under the financial reporting standard on financial instruments. The other receivables at amortised cost and which can be graded as low risk individually are considered to have low credit risk. At the end of the first reporting period a loss allowance is recognised at an amount equal to 12 month expected credit losses because there has not been a significant increase in credit risk since initial recognition. A loss allowance balance of $1,954,000 (2018: $1,962,000) is recognised at company level.

At each subsequent reporting date, an evaluation is made whether there is a significant change in credit risk by comparing the debtor's credit risk at initial recognition (based on the original, unmodified cash flows) with the credit risk at the reporting date (based on the modified cash flows). Adjustment to the loss allowance is made for any increase or decrease in credit risk.

Other receivables are normally with no fixed terms and therefore there is no maturity.

20. Other assets

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Deposits to secure services	4,708	4,441	4,557	4,337
Prepayments	643	1,019	579	985
	5,351	5,460	5,136	5,322

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

21. Cash and cash equivalents

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Not restricted in use	77,890	63,240	69,772	55,610
Interest earning balances	61,367	49,557	56,273	43,486

The rates of interest for the cash on interest earning balances ranged between 1.30% and 1.92% (2018: 0.50% and 1.98%) per annum.

21A. Non-cash transactions:

Included in additions to plant and equipment is an amount of $170,000 (2018: $130,000) being provision for restoration costs capitalised (Note 26).

The total cash outflow for leases of $14,980,000 for the year ended 31 December 2019 are shown in the statement of cash flows.

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Lease Liabilities	
	Group $'000	Company $'000
Balance at 1 January 2019	22,991	22,991
Charges from financing cash flows		
Repayment of lease liabilities	(14,362)	(14,211)
Interest paid	(618)	(606)
Total charges from financing cash flows	(14,980)	(14,817)
Other changes		
Interest expense	618	606
Additions	15,058	14,573
Balance as at 31 December 2019	23,687	23,353

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes to in-substance fixed payments. When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

22. Share capital

	Group and Company	
	Number of shares issued '000	Share capital $'000
Ordinary shares of no par value:		
Balance at 1 January 2018, 31 December 2018 and 31 December 2019	345,208	18,775

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

22. Share capital (Continued)

The ordinary shares of no par value are fully paid, carry one vote each and have no right to fixed income. The company is not subject to any externally imposed capital requirements.

In order to maintain its listing on the Singapore Exchange it has to have share capital with a free float of at least 10% of the shares. The company met the capital requirement on its initial listing and the rules limiting treasury share purchases mean it will continue to satisfy that requirement, as it did throughout the reporting year. Management receives a report from the share registrars frequently on substantial share interests showing the non-free float to ensure continuing compliance with the 10% limit throughout the reporting year.

Capital management:

The objectives when managing capital are: to safeguard the reporting entity's ability to continue as a going concern, so that it can continue to provide returns for owners and benefits for other stakeholders, and to provide an adequate return to owners by pricing the sales commensurately with the level of risk. The management sets the amount of capital to meet its requirements and the risk taken. There were no changes in the approach to capital management during the reporting year. The management manages the capital structure and makes adjustments to it where necessary or possible in the light of changes in conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the management may adjust the amount of dividends paid to owners, return capital to owners, issue new shares, or sell assets to reduce debt. Adjusted capital comprises all components of equity (that is, share capital and reserves).

The group and the company do not have any external borrowings. The debt-to-adjusted capital ratio therefore does not provide a meaningful indicator of the risk of borrowings.

23. Other reserves

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Foreign currency translation reserve (Note 23A)	(184)	(208)	–	–
Investments in debt asset instruments at FVTOCI reserve (Note 23B)	136	14	136	14
Total at the end of the year	(48)	(194)	136	14

All the reserves classified on the face of the statement of financial position as retained earnings represents past accumulated earnings and are distributable as cash dividends. The other reserves are not available for cash dividends unless realised.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

23. Other reserves (Continued)

23A. Foreign currency translation reserve

	Group	
	2019 $'000	2018 $'000
At beginning of the year	(208)	(192)
Exchange differences on translating foreign operations	24	(16)
At end of the year	(184)	(208)

The currency translation reserve accumulates all foreign exchange differences arising from the translation of financial statements of entities that are denominated in currencies other than the presentation currency of the consolidated financial statements.

23B. Investments in debt asset instruments at FVTOCI reserve

	Group and Company	
	2019 $'000	2018 $'000
At beginning of the year	14	56
Reclassification adjustments for losses/(gains) included in profit or loss – realised on disposal	13	(8)
Gains/(Losses) on fair value changes on debt assets instruments at FVTOCI	109	(34)
At end of the year	136	14

The FVTOCI reserve arises from the annual remeasurement of the FVTOCI financial assets. It is not distributable until it is released to the profit or loss on the disposal of the investments.

24. Financial liabilities – lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Lease liabilities, current	11,403	–	11,246	–
Lease liabilities, non-current	12,284	–	12,107	–
	23,687	–	23,353	–

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

24. Financial liabilities – lease liabilities (Continued)

Movements of lease liabilities for the reporting year are as follows:

	Group 2019 $'000	Company 2019 $'000
Total lease liabilities recognised at 1 January 2019 on adoption of SFRS(I) 16	22,991	22,991
Additions	15,058	14,573
Accretion of interest	618	606
Lease payments	(14,980)	(14,817)
Total lease liabilities at end of reporting year	23,687	23,353

The new standard on leases has been applied using the modified retrospective transition approach. Therefore no comparative amounts for the year ended 31 December 2018 are presented.

The lease liability above does not include the short-term leases of less than 12 months and leases of low-value underlying assets. Variable lease payments which do not depend on an index or a rate or based on a percentage of revenue are not included from the initial measurement of the lease liability and the right-of-use assets. The right-of-use assets are disclosed in Note 14.

Only variable lease payments that depend on an index or a rate; payments that vary to reflect changes in market rental rates are included in the measurement of the lease liability. Such variable amounts that are unpaid at the commencement date are included in the measurement of lease liability. Variable lease payments would also include extension options and termination options; residual value guarantees; and leases not yet commenced to which the lessee is committed. The variable lease payments based on revenue are recognised in profit or loss in the year in which the condition that triggers those payments occurs.

On transition to the new standard on leases the incremental borrowing rate applied to lease liabilities recognised was 3% per year. The right-of-use asset and lease liability before the date of initial application are measured at the same amounts as under the new standard.

Reconciliation of lease commitments and lease liability at the date of initial application:

	Group 2019 $'000	Company 2019 $'000
Operating lease commitments as at 31 December 2018	24,099	23,592
Others	(350)	136
Subtotal – Operating lease liabilities before discounting	23,749	23,728
Discounted using incremental borrowing rate	(758)	(737)
Operating lease liabilities, net and total lease liabilities recognised at 1 January 2019	22,991	22,991

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

24. Financial liabilities – lease liabilities (Continued)

A summary of the maturity analysis of lease liabilities that shows the remaining contractual maturities is as follows:

Group	Minimum payments $'000	Finance charges $'000	Present value $'000
2019			
Minimum lease payments payable:			
Not later than one year	11,922	(519)	11,403
Between 1 and 2 years	8,037	(238)	7,799
Between 2 and 3 years	4,464	(47)	4,417
Between 3 and 4 years	68	–	68
Total	24,491	(804)	23,687

Company	Minimum payments $'000	Finance charges $'000	Present value $'000
2019			
Minimum lease payments payable:			
Not later than one year	11,758	(512)	11,246
Between 1 and 2 years	7,872	(235)	7,637
Between 2 and 3 years	4,449	(47)	4,402
Between 3 and 4 years	68	–	68
Total	24,147	(794)	23,353

Total cash outflows for leases for the year ended 31 December 2019 are shown in the statement of cash flows.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes to in-substance fixed payments. When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

At reporting year date total commitments on leases that had not yet commenced were as follows:

Asset	2019 $'000
Retail outlets	106

The future cash outflows commitments to which the lessee is potentially exposed are not reflected in the measurement of lease liabilities above. This includes exposure arising from: (1) variable lease payments; (2) extension options and termination options; (3) residual value guarantees; and (4) leases not yet commenced to which the lessee is committed.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

24. Financial liabilities – lease liabilities (Continued)

Apart from the disclosures made in other notes to the financial statements, amounts relating to leases include the following:

	Group 2019 $'000	Company 2019 $'000
Expense relating to short-term leases and leases of low-value assets included in other expenses	1,293	1,293
Expense relating to variable lease payments not included in lease liabilities included in other expenses	599	599

25. Other liabilities

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Non-current:				
Membership administration fees (Note 25A)	705	1,369	705	1,368
Star Shield warranty (Note 25B)	1,330	1,390	–	–
Total non-current other liabilities	2,035	2,759	705	1,368
Current:				
Membership administration fees (Note 25A)	3,065	4,532	3,065	4,533
Star Shield warranty (Note 25B)	934	1,101	–	–
Customer loyalty programme (Note 25C)	1,953	1,922	1,953	1,922
Customer vouchers	201	180	201	180
Total current other liabilities	6,153	7,735	5,219	6,634

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

25. Other liabilities (Continued)

25A. Membership administration fees

The group operates the ValueClub, the Challenger membership scheme where membership administration fees are received from members at the start of the membership scheme for a period of 8 months, 18 months or 28 months (2018: 2 years).

	Group and Company	
	2019	**2018**
	$'000	**$'000**
Revenue deferred relating to membership administration fees:		
Balance at beginning of the year	5,901	6,760
Revenue deferred in respect of membership administration fees received	3,653	4,222
Revenue recognised on a time-proportion basis	(5,784)	(5,081)
Balance at end of the year	3,770	5,901
Presented in the statements of financial position:		
Non-current	705	1,369
Current	3,065	4,532
Total	3,770	5,901

25B. Star Shield Warranty

The group operates the Star Shield Warranty Scheme, where extended warranties protection can be purchased from the group. The extended warranties may cover up to a period of 1, 2 or 3 years after expiry of the manufacturer's standard warranty period. The warranty is accounted as a performance obligation and recognised as revenue over the period the warranty services are provided.

	Group	
	2019	**2018**
	$'000	**$'000**
Revenue deferred relating to Star Shield Warranty:		
Balance at beginning of the year	2,491	2,836
Revenue deferred in respect of cash received	898	827
Revenue recognised on a time-proportion basis	(1,125)	(1,172)
Balance at end of the year	2,264	2,491
Presented in the statements of financial position as:		
Non-current	1,330	1,390
Current	934	1,101
Total	2,264	2,491

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

25. Other liabilities (Continued)

25C. Customer loyalty programme

The group operates the ValueClub, the Challenger membership scheme, where every dollar spent on the purchase of the group's products entitles the member to earn one reward point. Reward points accumulated can be used to redeem specific products at specific retail locations, or cash vouchers issued by the company; The group recognises revenue for the loyalty points redeemed and recognises a contract liability for the unredeemed points at the end of the first reporting period. The estimates of the points that will be redeemed is updated periodically. The contract liability is recognised until the points are redeemed or expire.

	Group and Company	
	2019	**2018**
	$'000	**$'000**
Revenue deferred relating to customer loyalty programme:		
Balance at beginning of the year	1,922	1,922
Revenue deferred in respect of award credits earned	2,896	2,271
Revenue recognised on discharge of obligations for award credits	(2,865)	(2,271)
Balance at end of the year	1,953	1,922

26. Provisions

Provision for dismantling and removing the items and restoring the outlet premises relating to property, plant and equipment:

	Group and Company	
	2019	**2018**
	$'000	**$'000**
Movement in above provision:		
Balance at beginning of the year	1,955	1,886
Additions – included in property, plant and equipment	170	130
Used	(58)	(61)
Balance at end of the year	2,067	1,955

The provision is based on the present value of costs to be incurred to remove leasehold improvements from leased outlets and properties. The estimate is based on quotations from external contractors. The unwinding of discount is not significant.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

27. Trade and other payables

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trade payables:				
Outside parties and accrued liabilities	19,309	20,705	18,715	19,920
Subsidiaries	–	–	35	54
Trade payables – subtotal	19,309	20,705	18,750	19,974
Other payables:				
Advances paid	448	609	112	227
Deposits received	118	93	118	93
Other payables	113	162	106	162
Other payables – subtotal	679	864	336	482
Total trade and other payables	19,988	21,569	19,086	20,456

28. Contingent liabilities

	Company	
	2019 $'000	2018 $'000
Corporate guarantee given to bank in favour of a subsidiary	350	350
Undertaking to support a subsidiary in deficit	1,850	1,806

29. Operating lease income commitments – as lessor

At the end of the reporting year the total of future minimum lease receivables committed under non-cancellable operating leases are as follows:

	Group and Company	
	2019 $'000	2018 $'000
Not later than one year	146	475
Rental income for the year (Note 5)	2,305	1,871

Operating lease income is for rental receivable from product and branding display at certain retail outlets. The lease to the tenant is on a yearly basis.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

30. Financial instruments: information on financial risks

30A. Categories of financial assets and liabilities

The following table categorises the carrying amount of financial assets and liabilities recorded at the end of the reporting year:

	Group		Company	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Financial assets:				
Financial assets at amortised cost	80,596	68,384	71,743	58,886
Financial assets that are debt asset instruments at fair value through other comprehensive income (FVTOCI)	5,905	6,296	5,905	6,296
Financial assets that are investments at fair value through other comprehensive income (FVTOCI)	309	309	–	–
At end of the year	86,810	74,989	77,648	65,182
Financial liabilities:				
Financial liabilities at amortised cost	43,227	20,960	42,327	20,229
At end of the year	43,227	20,960	42,327	20,229

Further quantitative disclosures are included throughout these financial statements.

30B. Financial risk management

The main purpose for holding or issuing financial instruments is to raise and manage the finances for the entity's operating, investing and financing activities. The main risks arising from the entity's financial instruments are credit risk, interest risk, liquidity risk, foreign currency risk and market price risk comprising interest rate and currency risk exposures. Management has certain practices for the management of financial risks. The guidelines set up the short and long term objectives and action to be taken in order to manage the financial risks. The guidelines include the following:

1. Minimise interest rate, currency, credit and market risk for all kinds of transactions.

2. Maximise the use of "natural hedge": favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency and therefore put in place hedging strategies only for the excess balance. The same strategy is pursued with regard to interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

30. Financial instruments: information on financial risks (Continued)

30B. Financial risk management (Continued)

3. All financial risk management activities are carried out and monitored by senior management staff.

4. All financial risk management activities are carried out following acceptable market practices.

5. When appropriate consideration is given to entering into derivatives or any other similar instruments solely for hedging purposes.

There have been no changes to the exposures to risk; the objectives, policies and processes for managing the risk and the methods used to measure the risk.

30C. Fair values of financial instruments

The analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 are disclosed in the relevant notes to the financial statements. These include the significant financial instruments stated at amortised cost and at fair value in the statement of financial position. The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value.

30D. Credit risk on financial assets

Financial assets are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner. These arise principally from cash balances with banks, cash equivalents, receivables and other financial assets. The maximum exposure to credit risk is the total of the fair value of the financial assets at the end of the reporting year. Credit risk on cash balances with banks and any other financial instruments is limited because the counter-parties are entities with acceptable credit ratings. For expected credit losses (ECL) on financial assets, a simplified approach is permitted by the financial reporting standards on financial instruments for financial assets that do not have a significant financing component, such as trade receivables. On initial recognition, a day-1 loss is recorded equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For credit risk on trade receivables an ongoing credit evaluation is performed on the financial condition of the debtors and an impairment loss is recognised in profit or loss. Reviews and assessments of credit exposures in excess of designated limits are made. Renewals and reviews of credits limits are subject to the same review process.

Cash and cash equivalents are also subject to the impairment requirements of the standard on financial instruments. There was no identified impairment loss.

Other financial assets: these were investments in unquoted equity shares with no fixed maturity and corporate bonds with maturity dates. The maturity dates for corporate bonds are disclosed in Note 17 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

30. Financial instruments: information on financial risks (Continued)

30E. Liquidity risk – financial liabilities maturity analysis

The following table analyses the non-derivative financial liabilities by remaining contractual maturity (contractual undiscounted cash flows):

Group	Less than 1 year $	1 – 2 years $	2 – 3 years $	3 – 4 years $	Total $
Non-derivative financial liabilities:					
2019:					
Gross lease liabilities	11,922	8,037	4,464	68	24,491
Trade and other payables	19,540	–	–	–	19,540
At end of the year	31,462	8,037	4,464	68	44,031

Company	Less than 1 year $	1 – 2 years $	2 – 3 years $	3 – 4 years $	Total $
Non-derivative financial liabilities:					
2019:					
Gross lease liabilities	11,758	7,872	4,449	68	24,147
Trade and other payables	18,974	–	–	–	18,974
At end of the year	30,732	7,872	4,449	68	43,121

The liquidity risk refers to the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is expected that all the liabilities will be settled at their contractual maturity. There are no liabilities contracted to fall due after twelve months at the end of the reporting year. It is expected that all the liabilities will be settled at their contractual maturity. The average credit period taken to settle trade payables is about 30 days (2018: 30 days). The other payables are with short-term durations. The classification of the financial assets is shown in the statement of financial position as they may be available to meet liquidity needs and no further analysis is deemed necessary.

Bank facilities:	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Undrawn borrowing facilities	37,860	43,325	37,760	43,225
Unused bank guarantees	6,149	6,149	5,946	5,946

The undrawn borrowing facilities are available for operating activities and to settle other commitments. Borrowing facilities are maintained to ensure funds are available for the operations.

30F. Interest rate risk

The interest rate risk exposure is from changes in fixed and floating interest rates. The interest from financial assets including cash balances and corporate bonds and financial liabilities are not significant.

Sensitivity analysis: The effect on pre-tax profit is not significant.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

30. Financial instruments: information on financial risks (Continued)

30G. Foreign currency risks

Foreign exchange risk arises on financial instruments that are denominated in a foreign currency, ie in a currency other than the functional currency in which they are measured. For the purpose of this financial reporting standard on financial instruments: disclosures, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

Analysis of amounts denominated in major non-functional currencies:

Group	Chinese Renminbi $'000	Hong Kong Dollar $'000	United States Dollar $'000	Total $'000
2019:				
Financial assets:				
Cash	114	–	26	140
At end of the year	114	–	26	140
Net financial assets at end of the year	114	–	26	140
2018:				
Financial assets:				
Cash	147	331	16	494
At end of the year	147	331	16	494
Net financial assets at end of the year	147	331	16	494

Company	Chinese Renminbi $'000	Hong Kong Dollar $'000	United States Dollar $'000	Total $'000
2019:				
Financial assets:				
Cash	63	–	19	82
Loans and receivables	–	468	–	468
At end of the year	–	468	19	540
Net financial assets at end of the year	–	468	19	540
2018:				
Financial assets:				
Cash	55	–	9	64
Loans and receivables	–	476	–	476
At end of the year	55	476	9	540
Net financial assets at end of the year	55	476	9	540

There is exposure to foreign currency risk as part of its normal business.

Sensitivity analysis: The effect on pre-tax profit is not significant.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

30. Financial instruments: information on financial risks (Continued)

30H. Equity price risk

There are investments in corporate bonds and unquoted equity shares. As a result, such investments are exposed to market price risk arising from uncertainties about future values of the investment securities. The fair values of these assets and sensitivity analysis are disclosed in Note 17.

31. Changes and adoption of financial reporting standards

For the current reporting year new or revised financial reporting standards were issued by the Singapore Accounting Standards Council. Those applicable to the reporting entity are listed below. Those applicable new or revised standards did not require any significant modification of the measurement methods or the presentation in the financial statements.

SFRS (I) No.	Title
SFRS (I) 16	Leases (and Leases – Illustrative Examples & Amendments to Guidance on Other Standards)
SFRS (I) 1-28	Amendments to Long-term Interests in Associates and Joint Ventures
SFRS (I) INT 23	Uncertainty over Income Tax Treatments
SFRS (I) 1-12	Improvements (2017) – Amendments: Income Taxes
SFRS (I) 1-23	Improvements (2017) – Amendments: Borrowing Costs
SFRS (I) 3	Improvements (2017) – Amendments: Business Combinations

Leases:

The financial reporting standard on leases is effective for annual periods beginning on or after 1 January 2019 and it supersedes the previous reporting standard and the related interpretations on leases. For the lessee almost all leases are brought onto the statements of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Thus, the entity has recognised a right-of-use asset and a corresponding liability in respect of all these leases (unless they qualify for low value or short-term leases) which might have a material impact on the amounts recognised in the financial statements. The amount by which each financial statement line item is impacted (debits/(credits)) in the current reporting year 2019 by the application of the new standard on leases are disclosed in notes 14 and 24 to the financial statements. The reporting entity has elected to apply the modified retrospective approach for this new standard on leases. Under the modified retrospective approach the comparative information is not restated and therefore there is no presentation of a third column for the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

32. New or amended standards in issue but not yet effective

For the future reporting years certain new or revised financial reporting standards were issued by the Singapore Accounting Standards Council and these will only be effective for future reporting years. Those applicable to the reporting entity for future reporting years are listed below. The transfer to the applicable new or revised standards from the effective dates is not expected to result in any significant modification of the measurement methods or the presentation in the financial statements for the following year from the known or reasonably estimable information relevant to assessing the possible impact that application of the new or revised standards may have on the entity's financial statements in the period of initial application.

SFRS No.	Title	Effective date for periods beginning on or after
SFRS(I) 3	Definition of a Business – Amendments	1 January 2020
SFRS(I) 1-1 and 1-8	Definition of Material – Amendments to	1 January 2020
	The Conceptual Framework for Financial Reporting	1 January 2020

STATISTICS OF SHAREHOLDINGS

As at 4 May 2020

Distribution of Shareholdings

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 99	64	6.23	1,847	0.00
100 – 1,000	120	11.69	78,093	0.02
1,001 – 10,000	394	38.36	1,967,347	0.57
10,001 – 1,000,000	431	41.97	30,012,053	8.70
1,000,001 and above	18	1.75	313,148,621	90.71
TOTAL	1,027	100.00	345,207,961	100.00

Twenty Largest Shareholders

No.	Name	No. of Shares	%
1	Loo Leong Thye	148,352,250	42.97
2	Ng Leong Hai	83,067,500	24.06
3	Ong Sock Hwee	34,924,350	10.12
4	DB Nominees (Singapore) Pte Ltd	9,923,300	2.87
5	DBS Nominees (Private) Limited	6,773,107	1.96
6	Lim Yew Hoe	5,428,050	1.57
7	Loo Pei Fen (Lu Peifen)	4,492,500	1.30
8	Wang Tong Peng @Wang Tong Pang	3,363,299	0.97
9	Wong Tong Liew	2,670,000	0.77
10	Citibank Nominees Singapore Pte Ltd	2,216,670	0.64
11	United Overseas Bank Nominees (Private) Limited	2,053,497	0.59
12	Tan Wee Ko	1,788,000	0.52
13	Law Kim Hong Rosalind	1,586,499	0.46
14	Loh Tee Yang	1,501,599	0.43
15	Ng Kwong Chong or Liu Oi Fui Ivy	1,300,000	0.38
16	Tan Kok Ching	1,300,000	0.38
17	Lur Aik Beng	1,208,000	0.35
18	Ng Kian Teck	1,200,000	0.35
19	Ng Hian Hai or Cheo Chye Eng	1,000,000	0.29
20	Heng Tock Hin	880,999	0.26
	Total	**315,029,620**	**91.24**

STATISTICS OF SHAREHOLDINGS

As at 4 May 2020

Substantial Shareholders

	Direct Interest		Deemed Interest	
Name of Shareholders	**No. of Shares**	**%**	**No. of Shares**	**%**
Loo Leong Thye	148,352,250	42.97%	40,055,700	11.60%*
Ng Leong Hai	83,067,500	24.06%	–	–
Ong Sock Hwee	34,924,350	10.12%	–	–

* Mr Loo Leong Thye is deemed to be interested in the 5,131,350 shares held by his daughter and son, and 34,924,350 shares held by his wife, Madam Ong Sock Hwee.

Percentage of Shareholdings in Public Hands

Based on the information available to the Company as at 4 May 2020, approximately 20.44% of the issued ordinary shares of the Company is held by the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited.

CHALLENGER TECHNOLOGIES LIMITED

Company Registration Number: 198400182K