

Company Registration No. 200303284M

Koon Holdings Limited and its subsidiaries

Annual Financial Statements
31 December 2017



Koon Holdings Limited and its Subsidiaries

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Koon Holdings Limited and its Subsidiaries

Directors' statement

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

Opinion of the directors

In the opinion of the directors,

- (i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; and
- (ii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

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

Ang Sin Liu
Ang Ah Nui
Yuen Kai Wing
Oh Koon Sun
Oh Keng Lim
Heather Chong
Glenda Mary Sorrell-Saunders
Ko Chuan Aun

Arrangements to enable directors to acquire shares and debentures

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

Koon Holdings Limited and its Subsidiaries

Directors' statement

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under section 164 of the Singapore Companies Act, Chapter 50, an interest in shares and share options of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

Name of director	Shareholdings of director		
	At the beginning of year	At the end of year	At 21 January 2018
<i>Ordinary shares of the Company</i>			
Ang Sin Liu	18,660,800 ⁽¹⁾	18,660,800 ⁽¹⁾	18,660,800 ⁽¹⁾
Ang Ah Nui	122,571,819 ⁽²⁾	122,571,819 ⁽²⁾	122,571,819 ⁽²⁾
Oh Keng Lim	10,159,996	10,159,996	10,159,996
Oh Koon Sun	7,205,378	7,205,378	7,205,378
Heather Chong	120,000	120,000	120,000

Notes:

(1) Included 18,340,800 shares registered in the name of a nominee.

(2) Included 45,000,000 shares registered in the name of a nominee.

By virtue of section 7 of the Singapore Companies Act, Ang Ah Nui is deemed to have an interest in all the related corporations of the Company.

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

Employee performance share plan

(a) Terms and conditions of the Koon Holdings Employee Performance Share Plan ("Koon EPSP")

The Koon EPSP was approved by the Shareholders of the Company at an Extraordinary General Meeting held on 12 October 2009.

The terms of the Koon EPSP include the following:

(1) Eligibility

- (i) Employees who are eligible to participate in the Koon EPSP must:
 - be confirmed in his employment with the Group;
 - have attained the age of 21 years on or before the date of award; and
 - not be an un-discharged bankrupt.
- (ii) An executive director who meets the eligibility criteria above is eligible to participate in the Koon EPSP. However, controlling shareholders (including controlling shareholders who are executive directors) and their associates are not eligible to participate in the Koon EPSP.
- (iii) Non-executive directors are not eligible to participate in the Koon EPSP.

(2) Awards

- (i) Awards represent the right of a participant to receive fully paid-up shares free of charge, provided certain prescribed performance target(s) are met and upon the expiry of the prescribed vesting periods (if any).
- (ii) The Remuneration Committee shall decide, in relation to each award to be granted to a Participant:
 - the date on which the award will be granted;
 - the number of shares which are the subject of the award;
 - the prescribed performance targets;
 - the performance period during which the prescribed performance targets are to be satisfied;
 - the imposition of a vesting period and the duration of this vesting period, if any;
 - the extent to which the shares under that award shall be released on the condition that prescribed performance target(s) are being satisfied (whether fully or partially) or exceeded, as the case may be, at the end of the prescribed performance period and upon the expiry of the prescribed vesting period; and
 - such other conditions as the Remuneration Committee may deem appropriate, in its absolute discretion.

Employee performance share plan (cont'd)

(a) Terms and conditions of the Koon Holdings Employee Performance Share Plan ("Koon EPSP") (cont'd)

(3) *Selection of Participants*

The Koon EPSP is administrated by the Remuneration Committee whose members are:

Ko Chuan Aun - Chairman
Glenda Mary Sorrell-Saunders
Ang Ah Nui

A participant of the Koon EPSP who is a member of the Remuneration Committee shall not be involved in the deliberation of the award to be granted to that member of the Remuneration Committee.

The selection of a participant and the number of shares which are the subject of each award to be granted to a participant in accordance with the Koon EPSP shall be determined at the absolute discretion of the Remuneration Committee, which shall take into account criteria such as his rank, job performance, years of service and potential for future development, his contribution to the success and development of the Group and the extent of effort required to achieve the performance target within the performance period.

(4) *Timing*

Awards may be granted at any time in the course of a financial year. Any award made but prior to the vesting shall lapse, inter alia, if any of the following events occur:

- (i) the misconduct of a participant;
- (ii) the termination of the employment of a participant;
- (iii) the bankruptcy of a participant;
- (iv) the retirement, ill health, injury, disability or death of a participant;
- (v) the participant, being an executive director, ceasing to be a director of the Company for any reason whatsoever;
- (vi) a winding-up of the Company; and
- (vii) any other event approved by the Remuneration Committee.

(5) *Size and Duration of the Koon EPSP*

The total number of shares which may be granted under the Koon EPSP shall not exceed 5% of the issued ordinary shares of the Company on the day preceding the relevant date of award. In line with the SGX-ST Listing Manual requirements, in the event the Company establishes any other share plan(s) or any other option scheme(s), the aggregate of shares under all such share plan(s) and options granted under all such option scheme(s) will not exceed 15%.

Employee performance share plan (cont'd)

- (a) Terms and conditions of the Koon Holdings Employee Performance Share Plan ("Koon EPSP") (cont'd)

(5) Size and Duration of the Koon EPSP (cont'd)

The Company may also deliver shares pursuant to awards granted under the Koon EPSP in the form of existing shares purchased from the market or from shares held in treasury. Such methods will not be subject to any limit as they do not involve the issuance of any new shares. The Company shall obtain shareholders' approval through a Share Buyback Mandate prior to purchasing its shares from the market.

The Koon EPSP will continue in force at the discretion of the Remuneration Committee up to a maximum of 10 years commencing from the date of its adoption by the Company provided that the Koon EPSP may continue beyond this stipulated period with the approval of its shareholders in a general meeting and the required approval by relevant authorities.

Notwithstanding the expiry or termination of the Koon EPSP, any award made prior to expiry or termination will remain valid.

(6) Operation of the Koon EPSP

Awards granted under the Koon EPSP to whom they are given shall not be transferred, charged, assigned, pledged or otherwise disposed of, in whole or in part, unless with the approval of the Remuneration Committee. However the shares granted to a Participant pursuant to a grant of the award may be transferred, charged, assigned, pledged otherwise disposed of, in whole or in part.

The terms of employment or appointment of a Participant in the Koon EPSP shall not be affected by any award to be made therein.

Koon Holdings Limited and its Subsidiaries

Directors' statement

Employee performance share plan (cont'd)

- (b) There was no grant of awards during the year. The Remuneration Committee has previously approved a total grant of awards of 1,579,000 shares as follows:
- (i) 994,000 shares awarded and vested in 2009;
 - (ii) 330,000 shares awarded in 2010 which were vested equally over three years with 110,000 shares each issued in 2011 to 2013; and
 - (iii) 360,000 shares awarded in 2011 of which 105,000 shares were forfeited due to the resignation of employees. Of the balance awards of 255,000 shares, 165,000 shares were vested in 2013 and 90,000 shares were vested in 2014.

There were no (2016: nil) ordinary shares issued during the year pursuant to the Koon EPSP.

Accumulated shares awarded were as follows:

	Number of shares			
	Not issued		Issued	
	2017	2016	2017	2016
Directors				
Tan Thiam Hee (resigned on 31 July 2013)	—	—	140,000	140,000
Oh Koon Sun	—	—	104,000	104,000
Oh Keng Lim	—	—	100,000	100,000
	—	—	344,000	344,000
Other members of key management	—	—	380,000	380,000
Other employees	—	—	855,000	855,000
Total number of shares granted under the Koon EPSP	—	—	1,579,000	1,579,000

- (c) At the end of the financial year, there were no unissued shares of the Company or any corporations in the Group under option.

Audit and Risk Committee

The Audit and Risk Committee of the Company is chaired by Heather Chong and includes Glenda Mary Sorrell-Saunders and Ko Chuan Aun. They are also independent directors of the Company. The Audit and Risk Committee has met two times in 2017 and had reviewed the following, where relevant, with the executive directors and external auditors of the Company:

- (a) the audit plan of the external auditor;
- (b) the reports of the internal auditors' examination and evaluation of the Group's systems of internal accounting controls;
- (c) the Group's financial and operating results and accounting policies;

Koon Holdings Limited and its Subsidiaries

Directors' statement

Audit and Risk Committee (cont'd)

- (d) the balance sheet and statement of changes in equity of the Company and the consolidated financial statements of the Group before their submission to the directors of the Company and the external auditor's report on those financial statements;
- (e) the half-yearly and annual announcements as well as the related press release on the results and financial position of the Group;
- (f) the co-operation and assistance given by the management to the Group's external auditor; and
- (g) the re-appointment of the external auditor of the Group.

The Audit and Risk Committee has full access to and has the co-operation of the management and has been given the resources required for it to discharge its functions properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external auditor has unrestricted access to the Audit and Risk Committee.

Further details regarding the Audit and Risk Committee are disclosed in the Corporate Governance Statement.

Auditor

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

On behalf of the board of directors,


Yuen Kai Wing
Director


Oh Koon Sun
Director

Singapore
27 March 2018

Koon Holdings Limited and its Subsidiaries

Independent auditor's report For the financial year ended 31 December 2017

Independent auditor's report to the members of Koon Holdings Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Koon Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2017, the consolidated statement of comprehensive income and consolidated cash flow statement of the Group and the statements of changes in equity of the Group and the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Opinion

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

Key Audit Matters

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

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

Koon Holdings Limited and its Subsidiaries

Independent auditor's report

For the financial year ended 31 December 2017

Independent auditor's report to the members of Koon Holdings Limited (cont'd)

Key Audit Matters (cont'd)

1. Revenue from construction contracts and recoverability of contract work-in-progress

The Group recognised revenue of \$99,535,000 from construction contracts using the percentage of completion method for financial year ended 31 December 2017 and has gross amounts due from customers of \$31,767,000 and gross amounts due to customers of \$2,105,000 for contract work-in-progress at that date. The percentage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs. To determine the total contract costs and recoverable variation works require significant management judgement, which may have a material impact on the amounts of contract work-in-progress, construction contract revenues, costs and profits recognised during the year. Accordingly, we have identified this as a key audit matter.

We obtained an understanding and tested, on a sample basis, the key controls surrounding management's internal costing and budgeting processes put in place to estimate contract revenues, costs and profit margins. We tested the mathematical accuracy of contract revenues, costs and profits based on the percentage of completion calculations. Where there has been a significant change in management's estimates of such revenues, costs and profit margins, we enquired with management the rationale of such changes and obtained supporting documentation for such changes. We also reviewed the project files and discussed with management the progress of material contracts to determine if there are any changes such as delays, penalties, overruns such that it is probable that total contract costs will exceed total contract revenue and require the recognition of foreseeable losses on such contracts.

We assessed the recoverability of related contract work-in-progress amounts and receivables which include testing of post year end cash receipts and completeness of any project loss provisions through completion of the above procedures.

Information regarding the Group's revenue from construction contracts and contract work-in-progress is disclosed in Notes 5 and 15 to the financial statements.

2. Impairment assessment of trade receivables

The Group's trade receivables amounted to \$48,245,000 as of 31 December 2017 and were significant to the Group as they represented 21% of the Group's total assets.

The collectability of trade receivables is a key element of the Group's working capital management and is managed on an ongoing basis by management. Management sets credit limits for customers and approves such limits above certain thresholds where applicable. Given the nature of the Group's businesses and requirements of both suppliers and customers, various terms in each contract may be complex and can lead to disputes. The Group's process to review its outstanding trade receivables for impairment involves the use of significant management's estimates and assumptions.

Koon Holdings Limited and its Subsidiaries

Independent auditor's report

For the financial year ended 31 December 2017

Independent auditor's report to the members of Koon Holdings Limited (cont'd)

Key Audit Matters (cont'd)

2. Impairment assessment of trade receivables (cont'd)

We obtained an understanding of the Group's processes and related controls on the monitoring of trade receivables and also considered the ageing profile of outstanding trade receivables to identify collection risks. We performed procedures that include, amongst others, obtaining confirmation replies and evidence of post year end receipts for key trade debtors. We assessed the reasonableness of management's key assumptions used to evaluate the Group's trade receivables for impairment and to estimate the amount of impairment loss, where applicable, notably through detailed analyses of ageing of outstanding trade receivables, assessment of significant overdue individual trade receivables, and specific customer profile and risks.

Information regarding the Group's trade receivables and its credit risk management process is disclosed in Notes 12 and 36 to the financial statements.

Other Information

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

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

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

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

Koon Holdings Limited and its Subsidiaries

Independent auditor's report

For the financial year ended 31 December 2017

Independent auditor's report to the members of Koon Holdings Limited (cont'd)

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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Koon Holdings Limited and its Subsidiaries

**Independent auditor's report
For the financial year ended 31 December 2017**

Independent auditor's report to the members of Koon Holdings Limited (cont'd)

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

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 Sam Lo.



Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

27 March 2018

Koon Holdings Limited and its Subsidiaries

**Consolidated statement of comprehensive income
For the financial year ended 31 December 2017**

	Note	2017 \$'000	2016 \$'000
Revenue	5	163,559	202,726
Cost of sales		(143,142)	(182,303)
Gross profit		20,417	20,423
Other income	6	4,933	2,515
Distribution costs		(16)	(1,642)
Administrative and other expenses		(13,346)	(15,422)
Finance costs	7	(2,902)	(2,836)
Share of losses of associate		(16)	(18)
Share of losses of joint ventures		(7,607)	(1,509)
Profit before tax	8	1,463	1,511
Taxation	9	(1,362)	165
Profit for the year		101	1,676
Other comprehensive income/(loss):			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange gain/(loss) on translation of foreign operations		204	(114)
Other comprehensive income/(loss), net of tax		204	(114)
Total comprehensive income for the year		305	1,562
Profit/(Loss) for the year attributable to:			
Owners of the Company		123	1,863
Non-controlling interests		(22)	(187)
		101	1,676
Total comprehensive income/(loss) attributable to:			
Owners of the Company		343	1,703
Non-controlling interests		(38)	(141)
		305	1,562
Earnings per share (cents per share):			
- Basic	10	0.05	0.71
- Diluted	10	0.05	0.71

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

Koon Holdings Limited and its Subsidiaries

Balance sheets

As at 31 December 2017

		Group		Company	
	Note	2017	2016	2017	2016
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Current assets					
Cash and bank balances	11	7,495	14,997	85	263
Pledged fixed deposits	11	18	197	—	—
Trade receivables	12	48,245	49,560	—	—
Other receivables	13	26,896	13,529	6,882	9,785
Inventories	14	2,774	3,403	—	—
Contract work-in-progress	15	31,767	21,695	—	—
Held for trading investments	16	26	26	—	—
Assets held for sale	21	1,761	—	—	—
Total current assets		118,982	103,407	6,967	10,048
Non-current assets					
Other receivables	13	117	117	2,510	—
Properties held for development	17	14,139	13,885	—	—
Subsidiaries	18	—	—	57,476	57,426
Associates	19	*	*	—	—
Joint ventures	20	163	3,772	—	—
Property, plant and equipment	21	93,599	103,632	413	564
Available-for-sale investment	22	—	—	—	—
Goodwill	23	—	—	—	—
Deferred tax assets	28	231	320	—	—
Total non-current assets		108,249	121,726	60,399	57,990
Total assets		227,231	225,133	67,366	68,038

Koon Holdings Limited and its Subsidiaries

Balance sheets

As at 31 December 2017

		Group		Company	
	Note	2017	2016	2017	2016
		\$'000	\$'000	\$'000	\$'000
LIABILITIES AND EQUITY					
Current liabilities					
Trade payables	25	48,376	54,909	–	–
Other payables	26	21,525	14,004	18,980	19,642
Contract work-in-progress	15	2,105	11,238	–	–
Loans and borrowings	24	34,559	24,175	–	–
Finance lease obligations	27	16,188	15,278	79	76
Provision for share of a joint venture's losses	20	3,961	–	–	–
Income tax payable		1,138	634	57	9
Total current liabilities		127,852	120,238	19,116	19,727
Non-current liabilities					
Loans and borrowings	24	–	2,009	–	–
Finance lease obligations	27	35,859	40,105	139	218
Other payables	26	167	97	–	–
Deferred tax liabilities	28	1,369	1,005	–	–
Total non-current liabilities		37,395	43,216	139	218
Capital and reserves					
Share capital	29	25,446	25,446	25,446	25,446
Capital reserve	30	8,802	8,802	13,006	13,006
Accumulated profits		30,132	30,009	9,659	9,641
Translation reserve		(5,863)	(6,083)	–	–
Equity attributable to owners of the Company		58,517	58,174	48,111	48,093
Non-controlling interests		3,467	3,505	–	–
Total equity		61,984	61,679	48,111	48,093
Total liabilities and equity		227,231	225,133	67,366	68,038

* Less than \$1,000.

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

Koon Holdings Limited and its Subsidiaries

**Statements of changes in equity
For the financial year ended 31 December 2017**

	Share capital \$'000	Capital reserve \$'000	Accumulated profits \$'000	Translation reserve \$'000	Attributable to owners of the Company \$'000	Non-controlling interests \$'000	Total \$'000
Group							
Opening balance at 1 January 2016	25,446	8,802	29,461	(5,923)	57,786	3,646	61,432
Profit/(Loss) for the year	-	-	1,863	-	1,863	(187)	1,676
Other comprehensive (loss)/income for the year, net of tax	-	-	-	(160)	(160)	46	(114)
Total comprehensive income/(loss) for the year	-	-	1,863	(160)	1,703	(141)	1,562
<u>Contributions by and distributions to owners</u>							
Dividends	-	-	(1,315)	-	(1,315)	-	(1,315)
Total transactions with owners in their capacity as owners	-	-	(1,315)	-	(1,315)	-	(1,315)
Closing balance at 31 December 2016	25,446	8,802	30,009	(6,083)	58,174	3,505	61,679

Koon Holdings Limited and its Subsidiaries

**Statements of changes in equity
For the financial year ended 31 December 2017**

Group	Share capital \$'000	Capital reserve \$'000	Accumulated profits \$'000	Translation reserve \$'000	Attributable to owners of the Company \$'000	Non-controlling interests \$'000	Total \$'000
Opening balance at 1 January 2017	25,446	8,802	30,009	(6,083)	58,174	3,505	61,679
Profit/(Loss) for the year	–	–	123	–	123	(22)	101
Other comprehensive income/(loss) for the year, net of tax	–	–	–	220	220	(16)	204
Total comprehensive income/(loss) for the year	–	–	123	220	343	(38)	305
Closing balance at 31 December 2017	25,446	8,802	30,132	(5,863)	58,517	3,467	61,984

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

Koon Holdings Limited and its Subsidiaries

**Statements of changes in equity
For the financial year ended 31 December 2017**

	Share capital \$'000	Capital reserve \$'000	Accumulated profits \$'000	Total \$'000
<u>Company</u>				
Opening balance at 1 January 2016	25,446	13,006	10,156	48,608
Profit for the year, representing total comprehensive income for the year	–	–	800	800
<u>Contributions by and distributions to owners</u>				
Dividends	–	–	(1,315)	(1,315)
Total transactions with owners in their capacity as owners	–	–	(1,315)	(1,315)
Balance at 31 December 2016 and 1 January 2017	25,446	13,006	9,641	48,093
Profit for the year, representing total comprehensive income for the year	–	–	18	18
Closing balance at 31 December 2017	25,446	13,006	9,659	48,111

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

Koon Holdings Limited and its Subsidiaries

Consolidated statement of cash flows
For the financial year ended 31 December 2017

	Note	2017	2016
		\$'000	\$'000
Operating activities			
Profit before tax		1,463	1,511
<u>Adjustments for:</u>			
Allowance for impairment of doubtful debts		214	308
Depreciation of property, plant and equipment		20,166	21,029
Fair value loss on held for trading investments		–	4
Impairment of property, plant and equipment (net)		6	1
Property, plant and equipment written off		77	–
Interest expense		2,902	2,836
Interest income		(62)	(206)
Inventories written down		17	207
Gain on disposal of property, plant and equipment (net)		(2,530)	(184)
Provision/(Reversal) of foreseeable losses on contract work-in-progress (net)		1	(21)
Share of losses of joint ventures/associate (net)		7,623	1,527
Unrealised exchange loss		11	42
Operating cash flows before changes in working capital		29,888	27,054
<u>Changes in working capital:</u>			
Contract work-in-progress (net)		(19,205)	4,561
Trade receivables		1,317	(4,911)
Other receivables		(11,678)	(4,990)
Inventories		612	4,981
Trade payables		(6,533)	218
Other payables		6,415	(745)
Cash flows from operations		816	26,168
Income tax paid		(408)	(615)
Net cash flows from operating activities		408	25,553

Koon Holdings Limited and its Subsidiaries

Consolidated statement of cash flows
For the financial year ended 31 December 2017

	Note	2017 \$'000	2016 \$'000
Investing activities			
Capital contribution to a joint venture		—	(273)
Proceeds from government grants		482	—
Proceeds from disposal of property, plant and equipment		8,375	244
Purchase of property, plant and equipment (Note A)		(2,515)	(8,804)
Interest received		60	202
Net cash flows from/(used in) investing activities		6,402	(8,631)
Financing activities			
Repayment of obligations under finance leases		(19,980)	(13,999)
Proceeds from bank loans		16,900	13,600
Repayment of bank loans		(19,193)	(19,380)
Proceeds from bills payable		73,737	54,353
Repayment of bills payable		(65,390)	(59,195)
Interest paid		(2,688)	(2,686)
Dividends paid		—	(1,315)
Increase in pledged fixed deposits (Note B)		(21)	(3)
Net cash flows used in financing activities		(16,635)	(28,625)
Net decrease in cash and cash equivalents		(9,825)	(11,703)
Effects of exchange rate changes on cash and cash equivalents		2	(2)
Cash and cash equivalents at 1 January		14,997	26,702
Cash and cash equivalents at 31 December	11	5,174	14,997

Note A

During the year, the Group acquired property, plant and equipment with an aggregate cost of \$20,304,000 (2016: \$25,525,000) of which \$16,436,000 (2016: \$16,456,000) was acquired under finance lease arrangements and \$1,353,000 (2016: \$265,000) was still outstanding as at balance sheet date. Cash payment of \$2,515,000 (2016: \$8,804,000) was made for the purchase of property, plant and equipment.

Note B

During the year, the Tesla Group reclassified pledged fixed deposits amounting to \$200,000 (2016: nil) to Other receivables (Note 13). The reclassification is a non-cash transaction that do not require the use of cash of cash balances.

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

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements For the financial year ended 31 December 2017

1. Corporate information

The Company (Registration No. 200303284M) is incorporated in Singapore with its registered office and principal place of business at 11 Sixth Lok Yang Road, Singapore 628109. The Company is listed on the Australian Securities Exchange Limited ("ASX") and on the Main Board of the Singapore Exchange Securities Trading Limited ("SGX-ST").

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiaries are disclosed in Note 18 to the financial statements.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

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

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

The financial statements are presented in Singapore Dollars ("SGD" or "\$"), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements. All values are rounded to the nearest thousand (\$'000), except when otherwise indicated.

Convergence with International Financial Reporting Standards

For annual financial period beginning on or after 1 January 2018, Singapore-incorporated companies listed on the Singapore Exchange will apply Singapore Financial Reporting Framework (International) ("SFRS(I)", a new financial reporting framework identical to International Financial Reporting Standards. The Group will adopt SFRS(I) on 1 January 2018.

The Group has performed an assessment of the impact of adopting SFRS(I). Other than the impact on adoption of the SFRS(I) 15 and SFRS(I) 9, the Group expects that adoption of SFRS(I) will have no material impact on the financial statements in the year of initial application. The Group expects the impact of adopting SFRS(I) 15 and SFRS(I) 9 will be similar to the impact on adoption of FRS 115 and FRS 109 as disclosed in Note 2.3.

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

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

2.2 *Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2017. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

2.3 *Standards issued but not yet effective*

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
FRS 109 <i>Financial Instruments</i>	1 January 2018
FRS 115 <i>Revenue from Contracts with Customers</i>	1 January 2018
FRS 116 <i>Leases</i>	1 January 2019
Improvements to FRSs (December 2016)	
- Amendments to FRS 28 <i>Investment in Associates and Joint Ventures</i>	1 January 2018
Amendments to FRS 28 <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Improvements to FRSs (March 2018)	
- Amendments to FRS 103 <i>Business Combinations</i>	1 January 2019
- Amendments to FRS 111 <i>Joint Arrangements</i>	1 January 2019
- Amendments to FRS 12 <i>Income Taxes</i>	1 January 2019
- Amendments to FRS 23 <i>Borrowing Costs</i>	1 January 2019
Amendments to FRS 110 and FRS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be determined

As disclosed in Note 2.1, the Group will adopt SFRS(I) on 1 January 2018. Upon adoption of SFRS(I) on 1 January 2018, the SFRS(I) equivalent of the above standards that are effective on 1 January 2018 will be adopted at the same time.

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

The nature of the impending changes in accounting policy on adoption of FRS 109, FRS 115 and FRS 116 are described below:

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

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

FRS 109 Financial Instruments

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting, and is effective for annual periods beginning on or after 1 January 2018. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

The Group has performed a preliminary impact assessment of adopting FRS 109 based on currently available information. This assessment may be subject to changes arising from ongoing analysis, until the Group adopts FRS 109 in 2018.

Overall, the Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under FRS 109.

Loans and receivables currently accounted for at amortised cost will continue to be accounted for using amortised cost model under FRS 109. For financial assets currently held at fair value, the Group expects to continue measuring most of these assets at fair value under FRS 109.

Impairment

FRS 109 requires the Group to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Group plans to apply the simplified approach and record lifetime expected losses on all trade receivables. On adoption of FRS 109, the Group does not expect a significant increase in the impairment loss allowance.

The Group plans to adopt the standard when it becomes effective in 2018; and is gathering data to quantify the potential impact arising from the adoption.

FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers and introduces new contract cost guidance. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after 1 January 2018.

The Group has performed a preliminary impact assessment of adopting FRS 115 based on currently available information. This assessment may be subject to changes arising from ongoing analysis until the Group adopts FRS 115 in 2018.

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

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

FRS 115 Revenue from Contracts with Customers (cont'd)

Overall, the Group does not expect a significant change to the measurement basis arising from adopting the new revenue model under FRS 115.

The Group plans to adopt the standard when it becomes effective in 2018; and is gathering data to quantify the potential impact arising from the adoption.

FRS 116 Leases

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees – leases of 'low value' assets and short-term leases. The new leases standard is effective for annual periods beginning on or after 1 January 2019.

The Group plans to adopt the new standard when it becomes effective in 2019. The Group is currently in the process of analysing the transitional approaches and practical expedients to be elected on transition to FRS 116 and assessing the possible impact of adoption.

2.4 Basis of consolidation and business combinations

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

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

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

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

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

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

(a) Basis of consolidation (cont'd)

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

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

(b) Business combination and goodwill

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

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

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

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

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

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

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

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

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

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

(c) ***Business combinations achieved in stages***

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

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

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

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

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

2.6 Foreign currency

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

(a) Transactions and balances

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

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

(b) Consolidated financial statements

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

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

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

2.7 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment loss.

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

Freehold buildings	–	50 years
Leasehold buildings	–	4 to 10 years (over the term of the lease)
Leasehold improvements	–	9 years (over the term of the lease)
Plant and machinery	–	2 to 25 years or end of project life (if shorter)
Barges and dredgers	–	5 to 15 years
Trucks and motor vehicles	–	5 to 10 years or end of project life (if shorter)
Office equipment, furniture and fittings	–	2 to 15 years

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

Assets under construction are not depreciated as these assets are not yet available for use.

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

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

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

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

2.8 *Impairment of non-financial assets*

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

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

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

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

2.9 *Subsidiaries*

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

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

2.10 *Joint arrangements*

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

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

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

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

2.10 Joint arrangements (cont'd)

(a) Joint operations

The Group recognises in relation to its interest in a joint operation,

- (i) its assets, including its share of any assets held jointly;
- (ii) its liabilities, including its share of any liabilities incurred jointly;
- (iii) its revenue from the sale of its share of the output arising from the joint operation;
- (iv) its share of the revenue from the sale of the output by the joint operation; and
- (v) its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the accounting policies applicable to the particular assets, liabilities, revenues and expenses.

(b) Joint ventures

The Group recognises its interest in a joint venture as an investment and accounts for the investment using the equity method. The accounting policy for investment in joint venture is set out in Note 2.11.

2.11 Joint ventures and associates

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

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

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

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

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

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

2.11 Joint ventures and associates (cont'd)

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

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

2.12 Financial instruments

(a) Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

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

(ii) Loans and receivables

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

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

2.12 Financial instruments (cont'd)

(a) Financial assets (cont'd)

Subsequent measurement (cont'd)

(iii) Available-for-sale financial assets

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

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

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

De-recognition

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

(b) Financial liabilities

Initial recognition and measurement

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

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

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

2.12 Financial instruments (cont'd)

(b) Financial liabilities (cont'd)

Subsequent measurement

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

De-recognition

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

2.13 Impairment of financial assets

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

(a) Financial assets carried at amortised cost

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

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

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

2.13 Impairment of financial assets (cont'd)

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

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

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

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

(b) Available-for-sale financial assets

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

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

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

2.14 Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank and on hand which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

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

2.15 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. These costs are assigned by using the weighted average cost formula.

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

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

2.16 *Properties held for development*

Properties held for development are properties acquired or being constructed for sale in the ordinary course of business, rather than to be held for the Group's own use, rental or capital appreciation.

Properties held for development are held as inventories and are measured at the lower of cost and net realisable value.

Net realisable value of properties held for development is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.17 *Construction contracts*

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

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

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

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

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

2.17 Construction contracts (cont'd)

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

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

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

2.18 Provisions

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

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

2.19 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the grant is presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

Government grants related to income are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income are presented as a credit in profit or loss, under "Other income".

2.20 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

2.21 Employee benefits

(a) Defined contribution plan

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

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

(c) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

2.22 Leases

(a) As lessee

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

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

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

2.22 Leases (cont'd)

(a) As lessee (cont'd)

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

(b) As lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.23(c). Contingent rents are recognised as revenue in the period in which they are earned.

2.23 Revenue

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

(a) Sale of goods

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

(b) Construction contracts revenue

Revenue from construction contracts is recognised by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome can be estimated reliably. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

(c) Rental of machinery and equipment

Revenue from the rental of machinery and equipment is recognised on a straight-line basis over the lease term.

(d) Power station capacity credits

Power station capacity credits are notional units of capacity that are valid for a particular reserve capacity year and are allocated to a specific generating plant by the Independent Market Operator in Australia. Capacity credits revenue is recognised in the month when the benefits are derived.

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

2.23 Revenue (cont'd)

(e) *Dividend income*

Dividend income is recognised when the Group's right to receive payment has been established.

(f) *Interest income*

Interest income is recognised using the effective interest method.

(g) *Service income*

Service income is recognised when the services are performed.

2.24 Taxes

(a) *Current income tax*

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

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

(b) *Deferred tax*

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

2.24 Taxes (cont'd)

(b) Deferred tax (cont'd)

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

(c) Sales tax

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

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

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

2.25 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment results are regularly reviewed by management in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 31, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.26 Share capital and share issuance expenses

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

2.27 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) The amount of the obligation cannot be measured with sufficient reliability.

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

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

2.28 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

3. Significant accounting judgements and estimates

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

(a) Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgement which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determination of lease classification

The Group has entered into a marine vessel with a third party. The Group evaluated the terms and conditions of the arrangement and assessed that the marine vessel lease term does not constitute a substantial portion of the economic life of the marine vessel and the minimum lease payment is not substantially all of the fair value of the leased asset. The Group determined that it does not hold all the significant risks and rewards of ownership of this marine vessel and so accounts for the contract as an operating lease.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) Construction contracts

The Group recognises contract revenue by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome of a construction contract can be estimated reliably. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Significant assumptions are required to estimate the total contract costs and the recoverable variation works that affect the stage of completion. In making these estimates, management has relied on past experience and knowledge of the specialists.

The carrying amounts of assets and liabilities arising from construction contracts as at 31 December 2017 are \$31,767,000 and \$2,105,000 respectively (31 December 2016: \$21,695,000 and \$11,238,000 respectively). Management has performed cost studies, taking into account the costs to date and costs to complete each project, and evaluated exposures to liquidated damages. Based on these studies and evaluation, management considers that the above amounts relating to contract work-in-progress are fairly stated.

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

(b) *Key sources of estimation uncertainty (cont'd)*

(i) Construction contracts (cont'd)

If the estimated total contract cost had been 1% higher than management estimate, the carrying amount of the assets and liabilities arising from construction contracts would have been \$4,047,000 (2016: \$4,623,000) lower and \$2,374,000 (2016: \$1,911,000) higher respectively.

(ii) Impairment of loans and receivables

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

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables (excluding cash and bank balances) as at 31 December 2017 is \$74,068,000 (2016: \$61,664,000).

If the present value of estimated future cash flows decrease by 10% from management's estimates, the Group's allowance for impairment will increase by \$7,407,000 (2016: increase by \$6,166,000).

Koon Holdings Limited and its Subsidiaries**Notes to the financial statements****For the financial year ended 31 December 2017****4. Related party transactions**

Some of the Group's transactions and arrangements are with related parties that are not members of the Group. During the year, the Group entered into the following transactions with related parties at terms agreed between the parties:

	Group	
	2017	2016
	\$'000	\$'000
<u>Parties related to a substantial shareholder of the Group</u>		
Equipment rental income	(828)	(494)
Marine transport income	(378)	—
Sale of precast components	—	(133)
Sale of property, plant and equipment	(19)	(182)
Sale of raw materials	—	(16)
Secondment fee income	(348)	(348)
Sale of scrap metal	(194)	(127)
Subcontract income	(4,798)	(3,371)
Marine transport expenses	6	1,491
Other expenses	*	4
Equipment rental and charter expenses	1,484	2,085
Upkeep of barges expenses	361	680
Secondment fee expenses	—	104
Purchase of equipment	10,939	3,131
Purchase of precast components	8	—
Consultancy fee expenses	202	—
Subcontract expenses	623	—
Yard and dormitory rental expenses	520	—
Agency fee expenses	1	—
<u>Joint venture of the Group</u>		
Marine transport income	(4,313)	—
Subcontract award/purchase of precast components	38,556	14,903
Agency fee expenses	—	268
Purchase of raw materials	73	—
Equipment rental expenses	135	160
<u>Parties related to directors of the Company</u>		
Professional fee	58	57
Other services	—	14
<u>Party related to a director of a subsidiary</u>		
Professional fee	—	2

* Less than \$1,000

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements For the financial year ended 31 December 2017

4. Related party transactions (cont'd)

Sindo-Econ Group had entered into the following transactions with related parties (related by way of common shareholder) that are not members of the Group:

	Group	
	2017	2016
	\$'000	\$'000
Land rental expenses	1,790	2,012
Marine transport expenses	5,428	945
Service charges	21	11
Subcontract award/purchase of precast components	35	—

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	Group	
	2017	2016
	\$'000	\$'000
Short-term benefits	2,674	2,666
Defined contribution plans	54	50
	2,728	2,716

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

5. Revenue

	Group	
	2017	2016
	\$'000	\$'000
Construction contracts revenue	99,535	138,712
Sale of goods	42,382	38,869
Power station capacity credits	5,005	4,914
Rental of machinery and equipment	16,576	18,603
Service income	61	1,628
	163,559	202,726

Koon Holdings Limited and its Subsidiaries**Notes to the financial statements****For the financial year ended 31 December 2017****6. Other income**

	Group	
	2017	2016
	\$'000	\$'000
Gain on disposal of property, plant and equipment (net)	2,530	184
Interest income from fixed deposits	61	80
Interest income from investee	1	126
Sale of scrap metal	426	220
Reversal of allowance for impairment of doubtful debts	—	707
Secondment fees for a director	348	348
Supply of labour	308	295
Government grants	242	294
Other service income	616	—
Property tax refund	155	—
Others	246	261
	4,933	2,515

7. Finance costs

	Group	
	2017	2016
	\$'000	\$'000
Interest expense on:		
- Bank loans, bills payable and bank overdrafts	790	896
- Finance lease obligations	2,112	1,940
	2,902	2,836

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements For the financial year ended 31 December 2017

8. Profit before tax

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

	Group	
	2017	2016
	\$'000	\$'000
Depreciation of property, plant and equipment	20,166	21,029
Inventories written down, included in cost of sales	17	207
Employee benefits expense (including directors)	25,046	32,937
Directors' remuneration:		
- directors of the Company	1,682	1,677
- directors of subsidiaries	69	106
Defined contribution plans included in employee benefits expense (including directors)	1,173	1,252
Audit fees:		
- auditor of the Company	271	273
- other auditors	52	61
Foreign exchange loss (net)	148	141
Allowance/(Reversal of allowance) for impairment of doubtful debts (net)	214	(399)
Provision/(Reversal) of foreseeable losses on contract work-in-progress (net), included in cost of sales	1	(21)
Impairment of property, plant and equipment (net)	6	1

9. Taxation

Major components of taxation

The major components of taxation for the years ended 31 December 2017 and 2016 are as follows:

	Group	
	2017	2016
	\$'000	\$'000
Current income tax:		
- Current income taxation	1,055	603
- Over provision in respect of previous years	(146)	(539)
Deferred income tax:		
- Origination and reversal of temporary differences	444	(228)
- Under/(Over) provision in respect of previous years	9	(1)
Taxation recognised in profit or loss	1,362	(165)

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements For the financial year ended 31 December 2017

9. Taxation (cont'd)

Statement of comprehensive income:

	Group	
	2017	2016
	\$'000	\$'000
Deferred tax expense related to other comprehensive income:		
- Translation differences	—	(5)

Relationship between taxation and accounting profit

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

	Group	
	2017	2016
	\$'000	\$'000
Profit before tax	1,463	1,511
Tax at the domestic rates applicable to profits in the countries where the Group operates	202	100
Income not subject to taxation	(140)	(318)
Non-deductible expenses	378	456
Tax effect of share of results of joint ventures/associate	1,296	257
Over provision in previous years (net)	(137)	(540)
Deferred tax assets not recognised	110	102
Utilisation of previously unrecognised deferred tax assets	(218)	(172)
Effect of partial tax exempt income	(144)	(51)
Others	15	1
Taxation recognised in profit or loss	1,362	(165)

Unrecognised tax losses and deductible temporary differences

At the end of the reporting period, the Group has tax losses and deductible temporary differences of approximately \$15,662,000 (2016: \$16,537,000) available for offset against future taxable profits of certain subsidiaries in which the losses arose, for which no deferred tax is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which certain subsidiaries operate.

Tax consequences of proposed dividends

There are no income tax consequences (2016: nil) attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements (Note 38).

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements For the financial year ended 31 December 2017

10. Earnings per share

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

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

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

	Group	
	2017 \$'000	2016 \$'000
Profit for the year attributable to owners of the Company used in the computation of basic and diluted earnings per share	123	1,863

	Group	
	2017 No. of shares '000	2016 No. of shares '000
Weighted average number of ordinary shares:		
Basic earnings per share computation	263,098	263,098
Diluted earnings per share computation	263,098	263,098

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

11. Cash and bank balances

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	4,886	12,424	85	263
Fixed deposits	2,627	2,770	—	—
	7,513	15,194	85	263
Less: Pledged fixed deposits	(18)	(197)	—	—
Cash and bank balances	7,495	14,997	85	263

The Group has certain fixed deposits amounting to \$18,000 (2016: \$197,000) pledged to banks for bank loan facilities granted (see Note 24). The pledged fixed deposits have an average tenure of approximately 365 days (2016: approximately 198 days) and earn interest at average effective rate of 3.15% (2016: 2.25%) per annum. Management expects the pledge on the fixed deposits to be discharged within the next 12 months. Accordingly, the pledged fixed deposits have been presented under current assets.

The non-pledged fixed deposits have an average tenure of approximately 61 days (2016: approximately 61 days) and earn interest at average effective rate of 1.72% (2016: 2.07%) per annum.

The amount of cash and bank balances which are denominated in foreign currencies are as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Australian Dollars	7	13	7	13
United States Dollars	18	9	—	—

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at the end of the reporting period:

	Group	
	2017	2016
	\$'000	\$'000
Cash and bank balances	7,495	14,997
Less: Bank overdrafts (Note 24)	(2,321)	—
Cash and cash equivalents	5,174	14,997

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

12. Trade receivables

	Group	
	2017	2016
	\$'000	\$'000
Amounts due from external parties	32,164	35,957
Amounts due from related parties	3,090	2,890
Amounts due from joint ventures	48	–
Retention monies receivable	5,613	4,398
Unbilled receivables	7,718	6,703
Less: Allowance for impairment	(388)	(388)
	<u>48,245</u>	<u>49,560</u>

Retention monies held by customers are included in current assets as they are expected to be realised in the normal operating cycle upon completion of contract work.

The unbilled receivables pertain to sale of goods not billed to customers as at year-end.

Trade receivables are non-interest bearing and are generally on 30 days terms (2016: 30 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition. No interest is charged on overdue balances.

Amounts due from related parties and joint ventures are unsecured, non-interest bearing and are repayable on demand.

Included in the Group's trade receivables balance are debtors with a carrying amount of \$20,682,000 (2016: \$14,529,000) which are past due at the reporting date for which the Group has not provided for any impairment allowance. These overdue balances include \$12,369,000 (2016: \$12,369,000), which arise from back-to-back contract arrangements under which the Group will not be making payment for the same amount included as trade payables in Note 25 if the trade receivable is not settled. Management expects that as there has not been a significant change in the credit quality and the amounts are still considered recoverable, no impairment allowance is necessary. The Group does not hold any collateral over these balances.

The table below is an analysis of trade receivables:

	Group	
	2017	2016
	\$'000	\$'000
Not past due and not impaired	27,563	35,031
Past due but not impaired	20,682	14,529
	<u>48,245</u>	<u>49,560</u>
Impaired receivables - individually assessed	388	388
Less: Allowance for impairment	(388)	(388)
	<u>–</u>	<u>–</u>
Total trade receivables (net)	<u>48,245</u>	<u>49,560</u>

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements
For the financial year ended 31 December 2017

12. Trade receivables (cont'd)

The table below is an analysis of age of debts which are past due but not impaired:

	Group	
	2017	2016
	\$'000	\$'000
3 months to 6 months	2,151	1,900
6 months to 12 months	3,985	152
12 months to 24 months	2,160	1,626
>24 months	12,386	10,851
	20,682	14,529

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. Management believes that no further allowance for impairment is necessary.

The trade receivables that are neither past due nor impaired related to customers that the Group has assessed to be creditworthy, based on the credit evaluation process performed by management.

There were no trade receivables which are denominated in foreign currencies as at 31 December 2017 and 2016.

Receivables that are impaired

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

	Group	
	Individually impaired	
	2017	2016
	\$'000	\$'000
Trade receivables – nominal amounts	388	388
Less: Allowance for impairment	(388)	(388)
	–	–

Movement in allowance for impairment:

	Group	
	2017	2016
	\$'000	\$'000
At 1 January	388	1,704
Charge for the year	–	308
Write-off during the year	–	(1,624)
At 31 December	388	388

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

12. Trade receivables (cont'd)

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

13. Other receivables

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Receivable for disposal of property, plant and equipment	855	150	—	—
Other deposits	853	394	—	—
Prepayments	591	418	50	51
Amounts due from external parties	762	367	25	223
Amounts due from associates	—	10	—	—
Amounts due from related parties	1,571	1,275	1,378	1,072
Amounts due from joint ventures	21,879	9,791	—	—
Amounts due from subsidiaries	—	—	8,084	8,584
Tax recoverable	214	207	—	—
Sales tax receivable	385	917	—	—
Others	117	117	—	—
	27,227	13,646	9,537	9,930
Less: Allowance for impairment				
- Due from an external party	(214)	—	—	—
- Due from a subsidiary	—	—	(145)	(145)
	27,013	13,646	9,392	9,785
Analysed as:				
Current	26,896	13,529	6,882	9,785
Non-current	117	117	2,510	—
	27,013	13,646	9,392	9,785

Amounts due from related parties, subsidiaries, joint ventures and associates are unsecured, non-interest bearing and are repayable on demand.

Amounts due from external parties are unsecured, non-interest bearing and are expected to be repayable within the next 12 months.

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

13. Other receivables (cont'd)

Included in others is a loan receivable from an ex-employee of \$117,000 (2016: \$117,000) owing to Tesla Group. The loan receivable of Tesla Group is unsecured, non-interest bearing and payable upon dividend distribution by Tesla Group.

At the end of the reporting period, the Group and Company have provided an allowance of \$214,000 (2016: nil) and \$145,000 (2016: \$145,000) respectively for impairment of other receivables. The movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	Individually impaired		Individually impaired	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Other receivables – nominal amounts :				
- Due from an external party	214	–	–	–
- Due from a subsidiary	–	–	304	325
	214	–	304	325
Less: Allowance for impairment	(214)	–	(145)	(145)
	–	–	159	180

Movement in allowance for impairment:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
At 1 January	–	707	145	852
Charge for the year	214	–	–	–
Reversed during the year	–	(707)	–	(707)
At 31 December	214	–	145	145

There were no other receivables which are denominated in foreign currencies as at 31 December 2017 and 2016.

Koon Holdings Limited and its Subsidiaries

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For the financial year ended 31 December 2017

14. Inventories

	Group	
	2017	2016
	\$'000	\$'000
Balance sheet:		
Raw materials	255	439
Finished goods	68	513
Construction materials	2,451	2,451
	<u>2,774</u>	<u>3,403</u>
Statement of comprehensive income:		
Inventories recognised as an expense in cost of sales	44,367	45,669
Inclusive of the following charge:		
- Inventories written down	17	207

15. Contract work-in-progress

	Group	
	2017	2016
	\$'000	\$'000
Contract costs incurred to date	607,293	659,175
Foreseeable losses	(27)	(26)
Recognised profits less recognised losses to date	<u>40,555</u>	<u>38,372</u>
	647,821	697,521
Progress billings	<u>(618,159)</u>	<u>(687,064)</u>
	<u>29,662</u>	<u>10,457</u>
<i>Represented as:</i>		
Gross amount due from customers for contract work-in-progress	31,767	21,695
Gross amount due to customers for contract work-in-progress	<u>(2,105)</u>	<u>(11,238)</u>
	<u>29,662</u>	<u>10,457</u>
<i>Movements in provision for specific foreseeable losses:</i>		
At 1 January	26	47
Charged/(Reversed) to profit or loss during the year, net	<u>1</u>	<u>(21)</u>
At 31 December	<u>27</u>	<u>26</u>
Retention sums on construction contracts included in trade receivables	24	336

Koon Holdings Limited and its Subsidiaries

**Notes to the financial statements
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16. Held for trading investments

	Group	
	2017	2016
	\$'000	\$'000
Quoted equity shares, at fair value	26	26

17. Properties held for development

	Group	
	2017	2016
	\$'000	\$'000
Properties held for development	14,139	13,885

Properties held for development mainly comprise plots of vacant freehold land located in Malaysia.

Description and Location	Site Area (square metre)	Interest held by the Group	
		2017	2016
		%	%
Lot 150205, Mukim Plentong, Johor Bahru, Malaysia	1,416	100	100
Lot 150216-150225, Mukim Plentong, Johor Bahru, Malaysia	1,807	100	100
Lot 68319, Mukim Plentong, Johor Bahru, Malaysia*	42,938	100	100

* Freehold land at Lot 68319 is pledged as security for a bank loan of a subsidiary (Note 24)

Koon Holdings Limited and its Subsidiaries

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18. Subsidiaries

	Company	
	2017	2016
	\$'000	\$'000
Unquoted equity shares, at cost	50,930	50,880
Deemed investment in a subsidiary*	17,000	17,000
Less: Allowance for impairment losses	(10,454)	(10,454)
	57,476	57,426

* This represents funds provided by the Company to a subsidiary which are deemed to be additional capital contributions in the subsidiary, for it to acquire shares in its subsidiaries.

	Company	
	2017	2016
	\$'000	\$'000
<i>Movement in allowance for impairment:</i>		
At 1 January	10,454	10,454
Charge for the year	—	—
At 31 December	10,454	10,454

(a) Composition of the Group

The Group has the following investments in subsidiaries:

Name of subsidiaries	Principal activities (Country of incorporation/operation)	Effective equity interest held	
		2017 (%)	2016 (%)
<u>Held by the Company:</u>			
Entire Engineering Pte Ltd ⁽¹⁾	Rental of construction and civil engineering machinery and equipment (Singapore)	100	100
Entire Construction Pte Ltd ⁽¹⁾	Contractors for civil and engineering works (Singapore)	100	100
Econ Precast Pte Ltd ⁽¹⁾	Manufacturing and trading of precast components and reinforced concrete piles (Singapore)	100	100
Koon Properties Pte Ltd ⁽¹⁾	Investment holding (Singapore)	100	100

Koon Holdings Limited and its Subsidiaries

**Notes to the financial statements
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18. Subsidiaries (cont'd)

(a) Composition of the Group (cont'd)

Name of subsidiaries	Principal activities (Country of incorporation/operation)	Effective equity interest held	
		2017 (%)	2016 (%)
<u>Held by the Company</u> <u>(cont'd):</u>			
Koon Construction & Transport Co. Pte Ltd ⁽¹⁾	Contractors for civil and drainage engineering, building, shore protection and marine and foundation works (Singapore)	100	100
Reem Island Pte Ltd ⁽¹⁾	Chartering of ships, barges and boats with crew (freight) (Singapore)	100	100
Petra I Pte Ltd ⁽¹⁾	Chartering of ships, barges and boats with crew (freight) and marine construction (Singapore)	100	—
Tesla Holdings Pty Ltd ⁽²⁾	Investment holding (Australia)	74	74
<u>Held through subsidiaries:</u>			
Bukit Intan Pte Ltd ⁽¹⁾	Trading of precast components (Singapore)	100	100
Contech Precast Pte Ltd ⁽¹⁾	Manufacturing and trading of precast components (Singapore)	100	100
Econ Precast Sdn. Bhd. ⁽³⁾	Manufacturing of reinforced concrete piles and precast components (Malaysia)	100	100
Koon Construction & Transport Sdn. Bhd. ⁽³⁾	Contractors for civil engineering and building works (Malaysia)	100	100
Metro Coast Sdn. Bhd. ⁽³⁾	Property development (Malaysia)	100	100
Seven Star Development Sdn. Bhd. ⁽³⁾	Property development (Malaysia)	100	100
Tesla Corporation Pty Ltd ⁽²⁾	Holding company for electric power generation business (Australia)	74	74

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

18. Subsidiaries (cont'd)

(a) Composition of the Group (cont'd)

Name of subsidiaries	Principal activities (Country of incorporation/operation)	Effective equity interest held	
		2017 (%)	2016 (%)
<u>Held through subsidiaries:</u> <u>(cont'd)</u>			
Tesla Corporation Management Pty Ltd ⁽²⁾	Owns and operates power plant (Australia)	74	74
Tesla Geraldton Pty Ltd ⁽²⁾	Owns and operates power plant (Australia)	74	74
Tesla Kemerton Pty Ltd ⁽²⁾	Owns and operates power plant (Australia)	74	74
Tesla Northam Pty Ltd ⁽²⁾	Owns and operates power plant (Australia)	74	74
Triumph Heights Sdn. Bhd. ⁽³⁾	Property development (Malaysia)	100	100
Unison Progress Sdn. Bhd. ⁽³⁾	Property development (Malaysia)	100	100

Notes:

⁽¹⁾ Audited by Ernst & Young LLP, Singapore

⁽²⁾ Tesla group of companies ("Tesla Group") are audited by a member firm of EY Global in Australia

⁽³⁾ Audited by other firms of auditors

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements
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18. Subsidiaries (cont'd)

(b) Interest in subsidiaries with material non-controlling interest ("NCI")

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

Name of subsidiary	Principal place of business	Proportion of ownership interest held by non-controlling interest	Loss allocated to NCI during the reporting period \$'000	Accumulated NCI at the end of reporting period \$'000	Dividend paid to NCI \$'000
31 December 2017:					
Tesla Group	Australia	26%	(22)	3,467	—
31 December 2016:					
Tesla Group	Australia	26%	(187)	3,505	—

(c) Summarised financial information about subsidiaries with material NCI

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

	Tesla Group	
	2017 \$'000	2016 \$'000
<i>Summarised balance sheet:</i>		
Current		
Assets	5,535	4,828
Liabilities	(4,552)	(4,310)
Net current assets	983	518
Non-current		
Assets	23,072	21,153
Liabilities	(10,248)	(7,715)
Net non-current assets	12,824	13,438
Net assets	13,807	13,956

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements
For the financial year ended 31 December 2017

18. Subsidiaries (cont'd)

(c) Summarised financial information about subsidiaries with material NCI (cont'd)

Summarised statement of comprehensive income:

	Tesla Group	
	2017	2016
	\$'000	\$'000
Revenue	5,005	4,914
Profit/(Loss) before tax	3	(1,030)
Taxation	(89)	307
Loss for the year	(86)	(723)
Other comprehensive (loss)/income	(63)	179
Total comprehensive loss	(149)	(544)
<i>Other summarised information:</i>		
Net cash flows from operations	2,269	1,938
Acquisition of property, plant and equipment	4,387	1

Koon Holdings Limited and its Subsidiaries

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19. Associates

	Group	
	2017	2016
	\$'000	\$'000
Unquoted equity shares, at cost	*	*

* Less than \$1,000.

Details of the associates at the end of the reporting period are as follows:

Name of associates	Principal activities (Country of incorporation/ operation)	Proportion of ownership interest/voting power held	
		2017 (%)	2016 (%)
Mesco Sdn Bhd*	Dormant (Brunei)	50	50
Penta-Ocean/Hyundai/Koon Joint Venture*	Contractors for civil engineering and building work (Singapore)	20	20

* Audited by other firms of auditors.

Aggregate information about the Group's investment in associates that are not individually material are as follows:

	2017	2016
	\$'000	\$'000
Loss for the year, representing total comprehensive loss for the year	(16)	(90)

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

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20. Joint arrangements

(a) Joint ventures

	Group	
	2017	2016
	\$'000	\$'000
<i>Represented as:</i>		
<u>Investment in joint ventures</u>		
- Sindo-Econ Pte Ltd and its subsidiary	—	3,606
- PT. Koon Construction Indonesia	163	166
- Others	*	*
	<hr/>	<hr/>
	163	3,772
	<hr/>	<hr/>
<u>Provision for share of a joint venture's losses</u>		
- Sindo-Econ Pte Ltd and its subsidiary	(3,961)	—
	<hr/>	<hr/>

* No investment cost

The Group provided for its share of further losses in Sindo-Econ Pte Ltd and its subsidiary during the year in excess of its interest in the joint venture as the Group has given an undertaking to provide financial support for the joint venture to meet its liabilities as and when they fall due.

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

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20. Joint arrangements (cont'd)

(a) Joint ventures (cont'd)

Details of the Group's material joint ventures at the end of the reporting period are as follows:

Name of joint ventures	Principal activities (Country of incorporation/operation)	Proportion of ownership interest/voting power held	
		2017 (%)	2016 (%)
<u>Held through Econ Precast Pte Ltd:</u>			
Sindo-Econ Pte Ltd ⁽¹⁾	Investment holding and provision of management and consultancy services (Singapore)	50	50
<u>Held through Sindo-Econ Pte Ltd:</u>			
PT. Sindomas Precas ⁽²⁾	Manufacture of precast components (Indonesia)	50	50
<u>Held through Koon Construction & Transport Co. Pte Ltd:</u>			
PT. Koon Construction Indonesia ⁽²⁾	Contractors for civil engineering and building works (Indonesia)	67	67

Notes:

⁽¹⁾ Audited by Ernst & Young LLP, Singapore

⁽²⁾ Not required to be audited

Aggregate information about the Group's investment in other joint ventures that are not individually material are as follows:

	2017 \$'000	2016 \$'000
Profit for the year, representing total comprehensive income for the year	—	—

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

20. Joint arrangements (cont'd)

(a) Joint ventures (cont'd)

Summarised financial information in respect of Sindo-Econ Pte Ltd and its subsidiary ("Sindo-Econ Group") and PT. Koon Construction Indonesia based on their FRS financial statements and a reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

	Sindo-Econ Group	
	2017	2016
	\$'000	\$'000
<i>Summarised balance sheet:</i>		
Cash and bank balances	762	303
Trade receivables	20,446	12,192
Other receivables	8,981	8,620
Inventories	8,864	6,308
Current assets	39,053	27,423
Non-current assets	8,668	9,228
Total assets	47,721	36,651
Current liabilities	53,800	26,857
Non-current liabilities (excluding trade, other payables and provisions)	1,480	2,147
Total liabilities	55,280	29,004
Net (liabilities)/assets	(7,559)	7,647
Proportion of the Group's ownership	50%	50%
Group's share of net (liabilities)/assets	(3,780)	3,823
Eliminations	(181)	(217)
(Provision for share of losses)/Carrying amount of the investment	(3,961)	3,606

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

20. Joint arrangements (cont'd)

(a) Joint ventures (cont'd)

	Sindo-Econ Group	
	2017	2016
	\$'000	\$'000
<i>Summarised statement of comprehensive income:</i>		
Revenue	38,715	15,682
Interest income	—	1
Depreciation	(3,201)	(1,242)
Finance costs	(190)	(86)
Loss before tax	(15,207)	(2,888)
Taxation	—	83
Loss for the year, representing total comprehensive loss for the year	(15,207)	(2,805)
 <i>Summarised balance sheet:</i>		
	PT. Koon Construction Indonesia	
	2017	2016
	\$'000	\$'000
Cash and bank balances	104	313
Pledged fixed deposits	—	32
Other receivables	131	*
Current assets	235	345
Non-current assets	—	—
Total assets	235	345
Current liabilities	*	84
Non-current liabilities (excluding trade, other payables and provisions)	—	—
Total liabilities	*	84
Net assets	235	261
Proportion of the Group's ownership	67%	67%
Group's share of net assets	157	175
Exchange gain/(loss) on translation of foreign operations	6	(9)
Carrying amount of the investment	163	166

Koon Holdings Limited and its Subsidiaries

**Notes to the financial statements
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20. Joint arrangements (cont'd)

(a) Joint ventures (cont'd)

	PT. Koon Construction Indonesia	
	2017	2016
	\$'000	\$'000
<i>Summarised statement of comprehensive income:</i>		
Revenue	—	—
Interest income	1	1
Depreciation	—	—
Finance costs	—	—
Loss before tax	(5)	(159)
Taxation	*	—
Loss for the year, representing total comprehensive loss for the year	(5)	(159)

* Less than \$1,000

(b) Joint operation

Details of the Group's joint operation at the end of the reporting period are as follows:

Name of joint operation	Principal activities (Country of incorporation/operation)	Proportion of ownership interest/voting power held	
		2017 %	2016 %
POC-K JV	Contractor for infrastructure and civil engineering works (Singapore)	50	50

The above joint arrangements are strategic to the Group's activities. The Group jointly controls the above arrangements with partners under contractual agreements which require unanimous consent for all major decisions over their relevant activities.

Koon Holdings Limited and its Subsidiaries

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21. Property, plant and equipment/Assets held for sale

(a) Property, plant and equipment

Group	Freehold land \$'000	Freehold buildings \$'000	Leasehold buildings \$'000	Leasehold improvements \$'000	Plant and machinery \$'000	Barges and dredgers \$'000	Trucks and motor vehicles \$'000	Office equipment, furniture and fittings \$'000	Assets under construction \$'000	Total \$'000
Cost:										
At 1 January 2016	1,779	1,223	10,006	386	107,763	1,390	18,919	1,963	84	143,513
Additions	—	—	—	—	6,852	18,348	295	14	16	25,525
Disposals	—	—	(574)	(336)	(762)	(30)	(1,251)	(23)	—	(2,976)
Transfers	—	23	—	—	—	—	—	—	(23)	—
Exchange difference	12	—	—	—	380	—	—	1	—	393
At 31 December 2016	1,791	1,246	9,432	50	114,233	19,708	17,963	1,955	77	166,455
Government grants deduction	—	—	—	—	(480)	—	—	(2)	—	(482)
Additions	—	—	—	—	11,060	9,000	235	9	—	20,304
Disposals	—	96	—	—	(10,830)	(908)	(5,130)	(8)	—	(16,780)
Write-off	—	—	—	—	—	—	—	—	(77)	(77)
Exchange difference	(4)	(7)	—	—	(244)	—	—	—	—	(255)
Reclassification to Assets held for sale (Note 21(b))	(859)	(1,233)	—	—	(44)	—	—	—	—	(2,136)
At 31 December 2017	928	102	9,432	50	113,695	27,800	13,068	1,954	—	167,029

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements
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21. Property, plant and equipment/Assets held for sale (cont'd)

(a) Property, plant and equipment (cont'd)

Group	Freehold land \$'000	Freehold buildings \$'000	Leasehold buildings \$'000	Leasehold improvements \$'000	Plant and machinery \$'000	Barges and dredgers \$'000	Trucks and motor vehicles \$'000	Office equipment, furniture and fittings \$'000	Assets under construction \$'000	Total \$'000
Accumulated depreciation:										
At 1 January 2016	-	246	3,328	255	31,796	1,147	6,029	1,620	-	44,421
Depreciation	-	54	1,002	126	15,523	1,638	2,530	156	-	21,029
Disposals	-	-	(574)	(336)	(728)	(16)	(1,188)	(1)	-	(2,843)
Exchange difference	-	-	-	-	136	-	-	2	-	138
At 31 December 2016	-	300	3,756	45	46,727	2,769	7,371	1,777	-	62,745
Depreciation	-	44	1,001	5	12,952	3,705	2,337	122	-	20,166
Disposals	-	8	-	-	(6,822)	-	(2,291)	(8)	-	(9,113)
Exchange difference	-	(1)	-	-	(76)	-	-	-	-	(77)
Reclassification to Assets held for sale (Note 21(b))	-	(337)	-	-	(38)	-	-	-	-	(375)
At 31 December 2017	-	14	4,757	50	52,743	6,474	7,417	1,891	-	73,346
Impairment:										
At 1 January 2016	-	-	-	-	-	-	-	-	77	77
Additions	-	1	-	-	-	-	-	-	-	1
At 31 December 2016	-	1	-	-	-	-	-	-	77	78
Additions	-	83	-	-	-	-	-	-	-	83
Write-off	-	-	-	-	-	-	-	-	(77)	(77)
At 31 December 2017	-	84	-	-	-	-	-	-	-	84
Carrying amount:										
At 31 December 2017	928	4	4,675	-	60,952	21,326	5,651	63	-	93,599
At 31 December 2016	1,791	945	5,676	5	67,506	16,939	10,592	178	-	103,632

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Notes to the financial statements

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21. Property, plant and equipment/Assets held for sale (cont'd)

(a) Property, plant and equipment (cont'd)

Property, plant and equipment of the Group with carrying amount of \$78,672,000 (2016: \$84,159,000) are pledged as security for finance lease obligations (Note 27) and bank loans (Note 24).

During the year, a net impairment loss of \$6,000, representing the write-off of assets under construction of \$77,000 and write-down of freehold buildings of \$83,000 (2016: \$1,000 representing the write-down of freehold buildings) to the recoverable amount was recognised in profit or loss under the line item "Administrative and other expenses".

	Motor vehicles \$'000	Office equipment, furniture and fittings \$'000	Total \$'000
Company			
Cost:			
At 1 January 2016	822	134	956
Additions	173	—	173
Disposals	(2)	—	(2)
At 31 December 2016 and 31 December 2017	993	134	1,127
Accumulated depreciation:			
At 1 January 2016	283	134	417
Depreciation	146	—	146
At 31 December 2016	429	134	563
Depreciation	151	—	151
At 31 December 2017	580	134	714
Carrying amount:			
At 31 December 2017	413	—	413
At 31 December 2016	564	—	564

21. Property, plant and equipment/Assets held for sale (cont'd)

(a) *Property, plant and equipment (cont'd)*

Motor vehicles of the Company with carrying amount of \$413,000 (2016: \$564,000) are pledged as security for finance lease obligations.

(b) *Assets held for sale*

	Freehold land \$'000	Freehold buildings \$'000	Plant and machinery \$'000	Total \$'000
Group				
Cost:				
Reclassification from Property, plant and equipment (Note 21(a))	859	1,233	44	2,136
Accumulated depreciation:				
Reclassification from Property, plant and equipment (Note 21(a))	—	(337)	(38)	(375)
At 31 December 2017	859	896	6	1,761

During the year, the Group's wholly owned subsidiary, Econ Precast Sdn. Bhd., entered into an agreement for the sale of a freehold land, freehold building and plant and machinery in Malaysia. In accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*, the freehold land, freehold building and plant and machinery were classified as held for sale at the end of the reporting period. The sale was completed subsequent to year end.

Koon Holdings Limited and its Subsidiaries**Notes to the financial statements****For the financial year ended 31 December 2017**

22. Available-for-sale investment

	Group	
	2017	2016
	\$'000	\$'000
Unquoted equity shares, at cost	500	500
Less: Allowance for impairment	(500)	(500)
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

The investment in unquoted equity shares represents investment in a company that is engaged in construction projects.

In estimating the carrying amount, management determined that no future cash flow is expected from this investee.

23. Goodwill

	Group	
	2017	2016
	\$'000	\$'000
Cost at beginning of year	3,536	3,536
Less: Impairment loss	(3,536)	(3,536)
	<hr/>	<hr/>
Carrying amount at end of year	-	-
	<hr/>	<hr/>

Goodwill is allocated to the Electric Power Generation cash generating unit ("CGU") which is also a reportable operating segment. In 2015, an impairment loss of \$3,536,000 was recognised in profit or loss under the line item "Administrative and other expenses".

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

24. Loans and borrowings

	Group	
	2017	2016
	\$'000	\$'000
Current portion	34,559	24,175
Non-current portion	—	2,009
Total loans and borrowings	34,559	26,184

Loans and borrowings comprise:

	Effective interest rate		Maturity dates	Group	
	2017	2016		2017	2016
				\$'000	\$'000
Loan A – secured	—	7.31%	2017	—	5
Loan B – secured	4.12%	4.00%	2018	816	2,071
Loan C	3.13%	3.45%	2017 - 2018	2,000	2,000
Loan D – secured	2.30%	2.30%	2018	1,187	3,520
Loan E – secured	3.77% to 3.78%	3.93% to 3.95%	2017 - 2018	5,800	5,800
Loan F	3.23%	—	2018	500	—
Loan G – secured	3.25%	—	2018	800	—
Bank overdrafts	6.00%	—	On demand	2,321	—
				13,424	13,396
Bills payable ⁽¹⁾				21,135	12,788
Total				34,559	26,184

⁽¹⁾ Bills payable are interest bearing with an average effective interest of 3.12% (2016: 2.62%) per annum.

The Company has provided corporate guarantees for the bank loans, bank overdrafts and bills payable.

Loan A has been fully repaid as at 31 December 2017. The loan was secured by all assets under the Tesla Group of companies as at 31 December 2016.

Loan B and G are secured by mortgage of a leasehold building of a subsidiary with a carrying amount of \$4,674,000 as at 31 December 2017 (2016: \$5,676,000).

Loans D and E are secured by mortgage of the properties held for development by subsidiaries with an aggregated carrying amount of \$12,835,000 as at 31 December 2017 (2016: \$12,574,000).

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements
For the financial year ended 31 December 2017

24. Loans and borrowings (cont'd)

A reconciliation of liabilities arising from financing activities is as follows:

	2016	Cash flows	Non-cash changes			2017
	\$'000	\$'000	Acquisition \$'000	Foreign exchange movement \$'000	Other \$'000	\$'000
Loans and bills payable						
- Current	24,175	6,054	-	-	2,009	32,238
- Non-current	2,009	-	-	-	(2,009)	-
Finance lease obligations (Note 27)						
- Current	15,278	(16,679)	4,846	(62)	12,805	16,188
- Non-current	40,105	(3,301)	11,995	(135)	(12,805)	35,859
Total	81,567	(13,926)	16,841	(197)	-	84,285

The 'other' column relates to reclassification of non-current portion of loans and finance lease obligations due to passage of time.

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

25. Trade payables

	Group	
	2017	2016
	\$'000	\$'000
Amounts due to external parties	32,215	40,367
Amounts due to related parties	16,161	14,542
	<u>48,376</u>	<u>54,909</u>

Trade payables include an amount of \$12,369,000 (2016: \$12,369,000) which will not be settled unless receivables for the same amount, included in trade receivables (Note 12), is received.

The average credit period on the outstanding trade payables is 60 days (2016: 60 days). No interest is payable on overdue balances.

Amounts due to related parties are unsecured, non-interest bearing and are repayable on demand.

The Group has the following trade payables which are denominated in foreign currencies:

	Group	
	2017	2016
	\$'000	\$'000
United States Dollars	—	12

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements
For the financial year ended 31 December 2017

26. Other payables

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Accrued expenses	3,334	4,202	697	974
Advance from investee company	350	350	—	—
Advance from customers	11,559	5,327	—	—
Sales tax payable	938	1,840	53	54
Amounts due to external parties	3,453	1,211	153	159
Amounts due to related parties	52	115	2	—
Amounts due to subsidiaries	—	—	18,069	18,450
Amounts due to joint ventures	35	4	—	—
Payable for purchase of property, plant and equipment	1,350	282	—	—
Others	621	770	6	5
	21,692	14,101	18,980	19,642

Analysed as:

Current	21,525	14,004	18,980	19,642
Non-current	167	97	—	—
	21,692	14,101	18,980	19,642

Amounts due to related parties, subsidiaries and joint ventures are unsecured, non-interest bearing and are repayable on demand.

Amounts due to external parties are unsecured, non-interest bearing and are expected to be repayable within the next 12 months.

The Group has the following other payables which are denominated in foreign currencies:

	Group	
	2017	2016
	\$'000	\$'000
United States Dollars	19	91
Australian Dollars	16	—

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

27. Finance lease obligations

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Group				
Amounts payable under finance lease obligations:				
Not later than one year	18,190	17,084	16,188	15,278
Later than one year but not later than five years	36,976	41,919	35,859	40,105
Total minimum lease payments	55,166	59,003	52,047	55,383
Less: Amounts representing finance charges	(3,119)	(3,620)	N/A	N/A
Present value of minimum lease payments	52,047	55,383	52,047	55,383
Less: Amounts due for settlement within 12 months			(16,188)	(15,278)
Amounts due for settlement after 12 months			35,859	40,105

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements
For the financial year ended 31 December 2017

27. Finance lease obligations (cont'd)

	Minimum lease payments		Present value of minimum lease payments	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Company				
Amounts payable under finance lease obligations:				
Not later than one year	87	87	79	76
Later than one year but not later than five years	146	233	139	218
Total minimum lease payments	233	320	218	294
Less: Amounts representing finance charges	(15)	(26)	N/A	N/A
Present value of minimum lease payments	218	294	218	294
Less: Amounts due for settlement within 12 months			(79)	(76)
Amounts due for settlement after 12 months			139	218

These obligations are secured by charges over the leased property, plant and equipment (Note 21). These obligations are denominated in the respective functional currencies of the relevant entities in the Group.

Group

The average lease term is 5 years (2016: 3 years). The effective borrowing rates ranged between 2.35% and 6.58% (2016: 2.35% and 5.85%) per annum.

Company

The average lease term is 5 years (2016: 5 years). The effective borrowing rates ranged between 4.22% and 5.24% (2016: 4.28% and 5.24%) per annum.

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

28. Deferred tax assets/(liabilities)

	Group	
	2017	2016
	\$'000	\$'000
Deferred tax assets	231	320
Deferred tax liabilities	(1,369)	(1,005)
Net	(1,138)	(685)

The following are the deferred tax assets/(liabilities) recognised by the Group, and the movements thereon, during the current and prior reporting periods:

	Fair value adjustment on property, plant and equipment	Accelerated tax depreciation	Research and development tax credit	Tax losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Group					
At 1 January 2016	(25)	(2,662)	1,716	52	(919)
Credit/(Charge) to profit or loss	10	344	(73)	(52)	229
Translation differences	–	(16)	21	–	5
At 31 December 2016	(15)	(2,334)	1,664	–	(685)
Credit/(Charge) to profit or loss	30	(265)	(214)	(4)	(453)
Translation differences	–	4	(4)	–	–
At 31 December 2017	15	(2,595)	1,446	(4)	(1,138)

Unrecognised temporary differences relating to investments in subsidiaries

At the end of the year, undistributed earnings of foreign subsidiaries which would be subject to tax when distributed amounted to \$1,071,000 (2016: \$1,643,000). No deferred tax liability has been recognised as the Group is in a position to control the dividend policy of the subsidiaries and there is no intent to distribute these retained earnings in the foreseeable future.

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

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29. Share capital

	Number of ordinary shares 2017	Group and Company Share Capital 2017 \$'000	Number of ordinary shares 2016	Share capital 2016 \$'000
Issued and paid up:				
At beginning and end of year	263,097,800	25,446	263,097,800	25,446

The Company has one class of ordinary shares which carry one vote per share, has no par value and carries a right to dividend as and when declared by the Company.

The Company has an Employee Performance Share Plan ("Koon EPSP") which applies to the executive directors of the Company and the employees of the Group. However, controlling shareholders, including controlling shareholders who are executive directors and their associates are not eligible to participate in the Koon EPSP.

Koon EPSP is administrated by the Remuneration Committee.

There was no grant of awards during the year. The Remuneration Committee has previously approved a total grant of awards of 1,579,000 shares as follows:

- (i) 994,000 shares awarded and issued in 2009;
- (ii) 330,000 shares awarded in 2010 which were vested equally over three years with 110,000 shares each issued in 2011 to 2013; and
- (iii) 360,000 shares awarded in 2011 of which 105,000 shares were forfeited due to the resignation of employees. Of the balance awards of 255,000 shares, 165,000 shares were vested in 2013 and 90,000 shares were vested in 2014.

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

29. Share capital (cont'd)

Accumulated shares awarded were as follows:

	Number of shares		Vested and issued (Accumulated)	
	Not vested			
	2017	2016	2017	2016
Directors	—	—	344,000	344,000
Other members of key management	—	—	380,000	380,000
Other employees	—	—	855,000	855,000
Total number of shares granted under the Koon EPSP	—	—	1,579,000	1,579,000

30. Capital reserve

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Capital reserve arising from:				
Restructuring exercise	13,006	13,006	13,006	13,006
Share-based payment	283	283	—	—
Acquisition of non-controlling interests in subsidiaries	(4,487)	(4,487)	—	—
	8,802	8,802	13,006	13,006

Restructuring Exercise

On 10 April 2003, pursuant to a Restructuring Exercise, the shareholders of Koon Construction & Transport Co. Pte Ltd ("KCTC") transferred their entire equity interest comprising 16,006,400 ordinary shares of \$1 each in KCTC to the Company in exchange for 59,999,998 ordinary shares of \$0.05 each in the Company. As a result, KCTC became a wholly-owned subsidiary of the Company.

Capital reserve of \$13,006,000 represents the difference between the par value of the 59,999,998 ordinary shares of \$0.05 issued and cost of investment in KCTC.

30. Capital reserve (cont'd)

Share-based payment

The share-based payment relates to the issuance of 200,000 shares of a subsidiary, Tesla Holdings Pty Ltd ("Tesla"), to three directors of the subsidiary in March 2012 at no consideration in recognition of their services to Tesla. This has been accounted for as share-based payment expense of AUD200,000 (\$283,000) based on a value of AUD1 per share offered to other shareholders during a capital raising exercise.

Acquisition of non-controlling interests in subsidiaries, without a change in control

In 2013, the Group acquired the remaining 25% equity interest of Econ Precast Pte Ltd and its subsidiaries at a consideration of \$5,500,000. The negative amount of \$4,626,000 in capital reserve represents the excess of the consideration paid over the non-controlling interest of \$874,000 that was eliminated through the acquisition.

In 2015, the Group increased its investments in Tesla by 2.9% by way of acceptance of Tesla's dividend re-investment plan and shares conversion resulting from loan repayment by an ex-employee of Tesla. The difference of \$139,000 between the consideration and the carrying value of the additional interest accounted was recognised as "Capital reserve" within equity.

31. Operating segment information

Products and services from which reportable segments derive their revenues

For management reporting purpose, the Group's reportable segments are as follows:

- Construction
 - Precast
 - Property
 - Electric Power Generation
- I. The "Construction" segment relates to construction projects for civil engineering and infrastructure construction works including land reclamation, roads and bridges, shore protection, terminal and port projects.
 - II. The "Precast" segment relates to the supply and manufacturing of precast components and reinforced concrete piles.
 - III. The "Property" segment relates to property development activities.
 - IV. The "Electric Power Generation" segment relates to the ownership and operation of electricity power generation plants.

Koon Holdings Limited and its Subsidiaries**Notes to the financial statements****For the financial year ended 31 December 2017**

31. Operating segment information (cont'd)

Information regarding the Group's reportable segments is presented below.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Revenue		Results	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Construction	111,091	156,427	10,363	8,126
Precast	48,202	48,178	(3,086)	(3,531)
Property	—	—	(236)	(146)
Electric Power Generation	5,005	4,914	347	(633)
	<hr/>	<hr/>	<hr/>	<hr/>
	164,298	209,519	7,388	3,816
Elimination	(739)	(6,793)	(333)	(457)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	163,559	202,726	7,055	3,359
	<hr/>	<hr/>	<hr/>	<hr/>
Other income			4,933	2,515
Share of losses of joint ventures and associate			(7,623)	(1,527)
Finance costs			(2,902)	(2,836)
			<hr/>	<hr/>
Profit before tax			1,463	1,511
Taxation			(1,362)	165
			<hr/>	<hr/>
Profit for the year			101	1,676
			<hr/>	<hr/>

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

31. Operating segment information (cont'd)

Consolidated revenue of \$163,559,000 (2016: \$202,726,000) after elimination of inter-segmental sales comprise revenue from construction segment of \$111,091,000 (2016: \$156,410,000), precast segment of \$47,463,000 (2016: \$41,402,000), property segment of nil (2016: nil) and electric power generation segment of \$5,005,000 (2016: \$4,914,000).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Performance is measured based on segment results before allocation of other income, share of results of joint ventures and associate, finance costs and taxation, as included in internal management reports. Segment results are used by management for the purposes of resource allocation and assessment of segment performance.

Segment assets

	Group	
	2017	2016
	\$'000	\$'000
Construction	157,688	164,075
Precast	49,473	45,989
Property	17,393	19,035
Electric Power Generation	28,376	25,657
	252,930	254,756
Elimination	(28,479)	(33,035)
Total segment assets	224,451	221,721
Unallocated corporate assets	2,780	3,412
Total assets	227,231	225,133

All assets are allocated to reportable segments other than all assets of the Company, deferred tax assets, tax recoverable and sales tax receivable of the Group and those eliminated at consolidation.

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

31. Operating segment information (cont'd)

Other segment information

	Depreciation		Additions to property, plant and equipment	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Construction	16,381	16,207	11,355	25,491
Precast	1,576	1,898	4,562	33
Property	2	—	—	—
Electric Power Generation	2,207	2,924	4,387	1
	20,166	21,029	20,304	25,525

Segment results

The Construction segment results include provision for foreseeable losses amounting to \$1,000 (2016: reversal of provision for foreseeable losses amounting to \$21,000) and allowance for impairment of doubtful debts (net) amounting to \$214,000 (2016: \$308,000).

The Precast segment results include inventories written down amounting to \$17,000 (2016: \$207,000) and a write-off of \$77,000 (2016: nil) on its assets under construction.

The Property segment results include a write-down of \$83,000 (2016: \$1,000) on its properties, plant and equipment.

Segment assets

The Construction and Precast segments assets include investments in joint ventures and associates amounting to \$163,000 (2016: \$166,000) and nil (2016: \$3,606,000) respectively.

Geographical information

In presenting information based on geographical segments, segment revenue is based on geographical location of the customers and segment assets are based on geographical location of the assets as follows:

	Revenue		Non-current assets	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Singapore	158,173	192,960	70,871	82,915
Australia	5,005	4,914	22,724	20,715
Malaysia	381	4,852	14,143	13,887
Total	163,559	202,726	107,738	117,517

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

31. Operating segment information (cont'd)

Non-current assets information presented above consist of properties held for development and property, plant and equipment as presented in the consolidated statements of financial position.

Information about major customer

Revenue from two major customers amount to \$72,713,000 (2016: \$129,407,000) arising from sales by the Construction and Precast segments.

32. Bank guarantees, performance bonds and commitments

As at 31 December 2017, the Company has provided corporate guarantees totalling \$122,310,000 (2016: \$114,158,000) and \$1,249,000 (2016: \$1,526,000) to financial institutions in respect of credit facilities utilised by the subsidiaries and a joint venture respectively.

33. Operating lease arrangements – as lessee

	Group	
	2017	2016
	\$'000	\$'000
Minimum lease payments under operating leases recognised as an expense during the year	2,093	3,236

At the end of the reporting period, the Group has outstanding commitments under non-cancellable operating leases which fall due as follows:

	Group	
	2017	2016
	\$'000	\$'000
Not later than one year	2,178	992
Later than one year but not later than five years	4,677	2,012
	6,855	3,004

Operating lease payments represent rentals payable by the Group for rental of office, equipment, yard premises and accommodation. Leases are negotiated for an average term of 3 years (2016: 3 years).

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

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34. Categories of financial instruments

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

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Financial assets:				
<u>Fair value through profit or loss</u>				
- Held for trading investments	26	26	—	—
<u>Loans and receivables</u>				
- Trade receivables	48,245	49,560	—	—
- Other receivables (excluding prepayments, tax recoverable and sales tax receivable)	25,823	12,104	9,342	9,734
- Pledged fixed deposits	18	197	—	—
- Cash and bank balances	7,495	14,997	85	263
	81,581	76,858	9,427	9,997
Total financial assets	81,607	76,884	9,427	9,997
Financial liabilities:				
<u>Financial liabilities at amortised cost</u>				
- Loans and borrowings	34,559	26,184	—	—
- Trade payables	48,376	54,909	—	—
- Other payables (excluding advance from customers and sales tax payable)	9,195	6,934	18,927	19,588
	92,130	88,027	18,927	19,588
Finance lease obligations	52,047	55,383	218	294
Total financial liabilities	144,177	143,410	19,145	19,882

35. Fair value of assets and liabilities

(a) *Fair value hierarchy*

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset or liability.

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

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy in 2016 and 2017.

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

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

	Group 2017 \$'000			
	Quoted prices in active markets for identical instruments (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Financial assets:				
<u>Held for trading</u>				
<u>financial assets (Note 16)</u>				
- Quoted equity instruments	26	—	—	26

Koon Holdings Limited and its Subsidiaries

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35. Fair value of assets and liabilities (cont'd)

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

	Group 2016 \$'000			
	Quoted prices in active markets for identical instruments (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Financial assets:				
<u>Held for trading</u>				
<u>financial assets (Note 16)</u>				
- Quoted equity instruments	26	—	—	26

(c) Fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value.

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

	Group 2017 \$'000		Group 2016 \$'000	
	Carrying amount	Fair value (Level 3)	Carrying amount	Fair value (Level 3)
Financial assets				
Unquoted equity investments (i)	—	—	—	—
Financial liabilities				
Finance lease obligations (non-current) (ii)	(35,859)	(35,999)	(40,105)	(39,880)
Bank loans (non-current), fixed rate (ii)	—	—	(1,187)	(1,184)

35. Fair value of assets and liabilities (cont'd)

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

- (i) Unquoted equity investment represents 50% (2016: 50%) of total ordinary shares in Koon-Zinkon Pte Ltd which has been fully impaired in prior years.
- (ii) The fair value of finance lease obligations and interest-bearing bank loans with fixed interest rates are determined using discounted future principal and interest at the market interest rate at the end of the financial year. The estimated future cash flows are projected based on management's best estimates.

36. Financial risks management objectives and policies

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

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

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

(a) Credit risk

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

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

36. Financial risks management objectives and policies (cont'd)

(a) Credit risk (cont'd)

Exposure to credit risk

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

- A nominal amount of \$1,249,000 (2016: \$1,526,000) relating to a corporate guarantee provided by the Group to a financial institution in respect of credit facilities utilised by a joint venture.
- A nominal amount of \$122,310,000 (2016: \$114,158,000) relating to corporate guarantees provided by the Company to the financial institutions in respect of credit facilities utilised by the subsidiaries.

Credit risk concentration profile

Concentration of credit risk exists when economic, industry or geographical factors similarly affect the Group's counter parties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

The Group's customers are mainly located in Singapore. The Group has significant concentration of credit risk in that its top 5 debtors accounted for \$37,211,000 (2016: \$40,364,000) or 77% (2016: 81%) of the net trade receivables balance at year end.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Group. Cash and bank balances that are neither past due nor impaired are placed with reputable financial institutions with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 12 (Trade receivables) and Note 13 (Other receivables).

36. Financial risks management objectives and policies (cont'd)

(b) *Liquidity risk*

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

The Group maintains sufficient cash and bank balances, and internally generated cash flows to finance its activities. Future routine working capital requirements are expected to be funded with cash and bank balances, internally generated cash flows and several credit lines to draw on for routine working capital requirements.

Credit lines are reviewed with providers of credit facilities from time to time. Based on these evaluations, management expects that there will be sufficient liquidity for the Group's operations in the next financial year.

Analysis of financial instruments by remaining contractual maturities

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

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

36. Financial risks management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

	1 year or less	1 to 5 years	After 5 years	Total
	\$'000	\$'000	\$'000	\$'000
Group				
2017				
Financial assets:				
Held for trading investments	26	—	—	26
Trade receivables	48,245	—	—	48,245
Other receivables (excluding prepayments, tax recoverable and sales tax receivable)	25,706	117	—	25,823
Pledged fixed deposits	18	—	—	18
Cash and bank balances	7,495	—	—	7,495
Total undiscounted financial assets	81,490	117	—	81,607
Financial liabilities:				
Loans and borrowings	34,822	—	—	34,822
Trade payables	48,376	—	—	48,376
Other payables (excluding advance from customers and sales tax payable)	9,028	167	—	9,195
Finance lease obligations	18,190	36,976	—	55,166
Total undiscounted financial liabilities	110,416	37,143	—	147,559
Total net undiscounted financial liabilities	(28,926)	(37,026)	—	(65,952)

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For the financial year ended 31 December 2017

36. Financial risks management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

	1 year or less \$'000	1 to 5 years \$'000	After 5 years \$'000	Total \$'000
Group				
2016				
Financial assets:				
Held for trading investments	26	—	—	26
Trade receivables	49,560	—	—	49,560
Other receivables (excluding prepayments, tax recoverable and sales tax receivable)	11,987	117	—	12,104
Pledged fixed deposits	197	—	—	197
Cash and bank balances	14,997	—	—	14,997
Total undiscounted financial assets	76,767	117	—	76,884
Financial liabilities:				
Loans and borrowings	24,462	2,029	—	26,491
Trade payables	54,909	—	—	54,909
Other payables (excluding advance from customers and sales tax payable)	6,837	97	—	6,934
Finance lease obligations	17,084	41,919	—	59,003
Total undiscounted financial liabilities	103,292	44,045	—	147,337
Total net undiscounted financial liabilities	(26,525)	(43,928)	—	(70,453)

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Notes to the financial statements

For the financial year ended 31 December 2017

36. Financial risks management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

	1 year or less	1 to 5 years	After 5 years	Total
	\$'000	\$'000	\$'000	\$'000
Company				
2017				
Financial assets:				
Other receivables (excluding prepayments)	6,832	2,510	—	9,342
Cash and bank balances	85	—	—	85
Total undiscounted financial assets	6,917	2,510	—	9,427
Financial liabilities:				
Other payables (excluding sales tax payable)	18,927	—	—	18,927
Finance lease obligations	87	146	—	233
Total undiscounted financial liabilities	19,014	146	—	19,160
Total net undiscounted financial (liabilities)/assets	(12,097)	2,364	—	(9,733)
2016				
Financial assets:				
Other receivables (excluding prepayments)	9,734	—	—	9,734
Cash and bank balances	263	—	—	263
Total undiscounted financial assets	9,997	—	—	9,997
Financial liabilities:				
Other payables (excluding sales tax payable)	19,588	—	—	19,588
Finance lease obligations	87	233	—	320
Total undiscounted financial liabilities	19,675	233	—	19,908
Total net undiscounted financial liabilities	(9,678)	(233)	—	(9,911)

Koon Holdings Limited and its Subsidiaries

Notes to the financial statements

For the financial year ended 31 December 2017

36. Financial risks management objectives and policies (cont'd)

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

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

	1 year or less \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Group				
2017				
Financial guarantees	—	1,249	—	1,249
2016				
Financial guarantees	—	1,526	—	1,526
Company				
2017				
Financial guarantees	42,675	80,884	—	123,559
2016				
Financial guarantees	42,260	73,424	—	115,684

(c) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

Interest-yielding financial assets are mainly bank balances and fixed deposits. The interest rates for finance lease obligations, loan to investee company and certain bank loans are fixed on the date of inception. Any variation in the short-term interest rates will not have a material impact on the results of the Group.

The Group is exposed to the effect of changes of interest rates on loans and borrowings totalling \$33,372,000 (2016: \$22,664,000).

Sensitivity analysis for interest rate risk

At the end of the reporting period, if SGD interest rates had been 1% (2016: 1%) lower/higher with all other variables held constant, the Group's profit before tax would have been \$334,000 (2016: \$227,000) higher/lower, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility as in prior years.

36. Financial risks management objectives and policies (cont'd)

(d) **Foreign exchange risk**

The activities of the Company and its subsidiaries are mainly conducted in the functional currencies of the respective entities. Management considers the Group's exposure to foreign exchange risk to be low.

37. Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximising the return to stakeholders through the optimisation of relative proportions of debt and equity.

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

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group includes within net debt, loans and borrowings less cash and bank balances. Capital includes equity attributable to the owners of the Company.

The Group is in compliance with externally imposed financial covenants as at 31 December 2017 and 31 December 2016.

	Group	
	2017	2016
	\$'000	\$'000
Loans and borrowings	86,606	81,567
Less: Cash and bank balances (Note 11)	(7,495)	(14,997)
Net debt	79,111	66,570
Equity attributable to the owners of the Company	58,517	58,174
Net gearing ratio	135%	114%

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**Notes to the financial statements
For the financial year ended 31 December 2017**

38. Dividends

No dividend was proposed for the financial years ended 31 December 2017 and 2016.

39. Authorisation of financial statements

The financial statements for the financial year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 27 March 2018.

