ZICOM GROUP LIMITED

Appendix 4E

ASX Preliminary Final Report

30 June 2020

Name of entity:	**ZICOM GROUP LIMITED**
ABN:	**62 009 816 871**

FOR THE YEAR ENDED 30 JUNE 2020

1. **Financial reporting period**
   The reporting period is the full year ended 30 June 2020.
   The previous corresponding period is the full year ended 30 June 2019.

2. **Results for announcement to the market**

Full year ended	**2020** $'000	**2019** $'000	**% Change**
Revenue from ordinary activities	103,275	100,313	3.0%
Net (loss)/profit from ordinary activities after tax attributable to members	(709)	455	(255.8%)
Net (loss)/profit for the year attributable to members	(709)	455	(255.8%)

3. **Dividends**

Dividends	**2020**	**2019**	**% Change**
Interim dividend (unfranked) per security	–	–	–
Final dividend (unfranked) per security	–	–	–

4. **Net tangible assets per security**

Net tangible assets per security	**2020**	**2019**	**% Change**
Net tangible assets per security (Singapore cents)	23.34	26.91	(13.3%)

   With the adoption of AASB 16 *Leases* on 1 July 2019, the calculation of net tangible assets per security as at 30 June 2020 includes lease liabilities but excludes the associated right-of-use intangible asset. Had AASB 16 not being adopted, as in the past, net tangible assets per security as at 30 June 2020 would have been Singapore 26.95 cents and % change would have been an improvement of 0.15%.

5. **Entities over which control has been gained/lost**
   There were no changes to controlled entities during the year ended 30 June 2020.

6. **Dividend reinvestment plan**
   Not applicable.

7. **Details of associates or joint ventures**
   Please refer to Note 10.

8. **Audit Review**
   The accounts are in the process of being audited.

Review of Operations

Results

The Group made a consolidated net profit after tax of S$3.55m in the second half of financial year ended 30 June 2020, compared with a loss of S$4.26m in the first half year. This has resulted in a net consolidated loss after tax of S$0.71m for the full year as compared with a net consolidated profit of S$0.46m in the previous year, a decrease of 255.8%.

The Group's performance for the first half of the financial year was beset with geopolitical and global trade war challenges involving USA, China and Europe. The ongoing global trade war was compounded by the outbreak of the Covid-19 epidemic in late December 2019 which very quickly escalated into an unprecedented pandemic leading to lockdown measures in many countries, severely impairing the global trading system and supply chain. The situation is still not under control.

The Group operated in very extreme conditions for the full financial year. Lockdown measures to control the pandemic had brought businesses, already impacted by the ongoing trade war, virtually to a standstill for almost 4 months in the second half year. The Singapore and Australia governments, as with most governments in affected countries, partially subsidised manpower costs during the shutdown periods but these could only support a small percentage of the total costs of keeping a business going.

Notwithstanding the extreme operating conditions, the Group achieved a consolidated revenue of S$103.28m for the full financial year as compared with S$100.31m (including discontinued operations) in the previous year, an increase of 3.0%.

The Group's cash and bank balances as at 30 June 2020 were at S$11.51m (30 June 2019: S$15.02m). The Group's gearing ratio which has been arrived at by dividing interest-bearing liabilities less cash and cash equivalents over capital is at 48.73% (30 June 2019: 11.64%). The Group's gearing has been increased to strengthen its working capital. Accounting standard AASB 16 *Leases,* starting from this year's accounts requires lessees to recognise outstanding future lease rentals on leasehold and rental properties as liabilities in the accounts. This has the effect of increasing gearing ratio by 11.96%. Had AASB 16 not been adopted, as in the past, the Group's gearing ratio would have been 36.77%.

Loss per share for the year is Singapore 0.33 cents compared to earnings per share of Singapore 0.21 cents in the previous year, a decrease of Singapore 0.54 cents per share.

Net tangible assets per share decreased from Singapore 26.91 cents to 23.34 cents per share, as a result of recognising the outstanding future lease rentals as lease liabilities as required by accounting standard AASB 16. Had AASB 16 not been adopted, as in the past, the Group's net tangible assets per share would have been Singapore 26.95 cents, resulting in an increase of Singapore 0.04 cents per share.

Return on equity, based on average of the opening and closing equity, for the year was -1.1% as compared to 0.7% in 2019.

The average rates for currency translation for transactions and cash flows are A$1 to S$0.9288 (2019: S$0.9749) for the year ended 30 June 2020 and balances A$1 to S$0.9576 (2019: S$0.9488) as at 30 June 2020, reflecting a strengthened A$.

The Group's precision engineering and marine offshore businesses which qualified as essential businesses during the lockdown were allowed to operate partially with safe distancing measures and limits on manpower at work implemented. Other employees worked from home. This enabled the Group to continue executing ongoing projects albeit in a very restrictive environment.

In mid-July the partial lifting of lockdown measures enabled most businesses, with the exception of the construction, hospitality, entertainment and travel industries to reopen. International travels and cross-country movements of people continue to be restricted. A calibrated approach to facilitate reopening of these businesses in the next few weeks is being carried out. However, a complete reopening of a country without restrictions is unlikely in the near future as the pandemic remains uncertain as a second or third wave of the virus has already been experienced in several affected countries soon after the countries reopened.

During the financial year just ended, the Group had mainly focused in the execution and delivery of projects secured before the pandemic. A virtual shut down of 4 months in the second half year resulted in very little new orders being generated.

The Group's customers, have generally slowed down or held back their requirements but have not cancelled them. With the lifting of lockdown measures, easing of travel restrictions and global trade connectivity and supply chain re-established, the Group is confident that potentials for new orders will resurge.

The overall situation remains very fluid. No vaccine is available and neither is there any known drug that can treat the disease. Very much depends on self-immunology. The number of detected cases has escalated worldwide so are the death rates. Until the situation peaks and a reliable vaccine is found and made available to the world's population, the global economic structure will remain under siege even if the global trade war ameliorates.

Difficult times will continue in the short to medium term. However, the Group's resilience to navigate tough challenges, in particular in the second half year with strong disciplines and determination positions it well to maintain its revenue generation.

In the midst of the pandemic in the last 6 months, the Group achieved the following objectives: -

a) Transformation of the Offshore Marine, Oil & Gas sector: -

- We are on track to complete our first major turnkey gas compressor station project by the first quarter of calendar year 2021. The technology and experiences gained have strengthened the Group's capacity and capability to undertake more significant and higher value-add turnkey projects in the pipeline.

- We have successfully developed LNG propulsion systems for big bulk vessels and tankers. The International Maritime Organisation (IMO) 2020 regulations mandate that all ocean-going vessels are required from January 2020 to reduce sulphur emissions from 3.5% to 0.5% m/m (mass by mass). By 2030, IMO targets to reduce carbon emissions by 40% and by 2050 reduction of 70% compared to 2008. It is foreseen that carbon emissions will grow from 50-250% by 2050 caused by growth in maritime trade. As such, as part of our technology roadmap, we plan to include development of hydrogen fuel cell for the marine industry.

  Most of the world's shipbuilding activities these days focus on bulk vessels and tankers. These vessels are required to comply with mandatory IMO Rules and retrofitting existing old vessels may not prove feasible. As these ship-owners are generally well capitalised many have decided to build new vessels with more advanced, including cost-saving features and are IMO compliant. Offshore supply vessels which form the main customers for our deck machinery continue to be in oversupply and are not likely to see any near-term recovery. Our foray into LNG propulsion systems enables us to diversify our product offerings within the same marine industry in which we have established network and are familiar with the environment and operating conditions. As these customers' demand criteria are different, they make for a diversified customer base in the marine industry for the Group.

  The Group has achieved its breakthrough in LNG propulsion systems last year with an order from a leading shipyard in Singapore. We are very hopeful of further major breakthrough orders in the near future. This will not only bridge the gap in our marine offshore revenue in the immediate future but will greatly strengthen and expand our revenue base in the long term to weather industry cycle.

b) Surgical Mask Manufacturing

As part of our Corporate Social Responsibility (CSR), our Precision Engineering team led by the Group CEO, leveraging on our in-house design expertise and the concurrent surplus of manpower caused by the lockdown measures, designed and manufactured an automatic surgical mask production line. This was initially aimed to help bridge the crying global shortages of personal protective equipment of which masks form a key component. Although it was intended as a short-term CSR project, in order to ensure effective protection for the frontline healthcare workers and the general public who use the masks, we focused, at the outset, to produce high quality masks by world's standards. Our masks are CE conformed, and have obtained regulatory approvals from Singapore Health Sciences Authority (HSA) and Australian Therapeutic Goods Administration (TGA). We are expecting to receive Europe (EU) regulatory approvals within the next few weeks, as well as USA Food and Drug Administration (FDA) approval in the next 3-4 months. The mask has been tested under EN 14683 directives and classified under Type IIR, the highest EN quality standards for adoption for surgical use.

The rapidly changing landscape in adopting mask wearing as a tangible form of protection against infection, has propelled the scalability of the product commercially. Our product quality is a strong value proposition to realise its commercial potentials. The recurrent revenue will supplement our mainly project-based revenue. As the entire technology from design and manufacture of the production line and the mask are available in-house, this capability will enable us to continuously enhance, develop and expand in personal protective equipment of which the mask is a key component.

We do not expect this business to have any immediate significant impact in the next 12 months.

Our precision engineering sector and the construction equipment will recover and resume their growth as the various countries return to normalcy albeit gradually.

The Group is confident to navigate through this difficult period. We are confident of a strong recovery as the pandemic is brought under control with vaccines expected to be available by 2021. On balance the effect of the global trade war is less potent than the pandemic.

A comparison of the results of the current year with the previous year from the continuing operations are as follows: -

Key Financials	Change (%)	12 months ended 30 Jun 20 (S$ million)	12 months ended 30 Jun 19 (S$ million)
Total revenue	+3.7	103.28	99.62
Net (loss)/profit after tax attributable to equity holders of the Parent	-140.8	(0.71)	1.74

The Group's cash balances remain healthy. As at 30 June 2020, the Group's total cash and bank balances were S$11.51m as compared with S$15.02m as at 30 June 2019.

Segmental Revenue
The following is an analysis of the segmental revenue: -

Revenue by Business Segments	Change (%)	12 months ended 30 Jun 20 (S$ million)	12 months ended 30 Jun 19 (S$ million)
Offshore Marine, Oil & Gas Machinery	+ 302.0	52.94	13.17
Construction Equipment	- 36.7	26.74	42.21
Precision Engineering & Technologies	- 48.2	21.86	42.23
Industrial & Mobile Hydraulics	- 17.0	1.76	2.12

Offshore Marine, Oil & Gas Machinery
Demand for offshore marine, oil and gas machinery increased by 302% in the full year as compared with the previous year. The main contribution comes from supply of gas processing plants and land-based gas metering stations. Oil exploration and production rigs along with offshore supply vessels remain in surplus against a backdrop of flat oil prices during the year. Recovery in this segment is unlikely in the short term. Our deck machinery is mainly pivoted in this area. However, demand for gas processing plants for which we are well positioned remains strong. While prospects are strong in this segment, successful execution will be very dependent on the pandemic situation being under control. We are hopeful of significant breakthroughs in LNG propulsion projects in the near future that would add new value to this sector.

Construction Equipment
Demand for construction equipment in Australia, Singapore, Malaysia, the Philippines and Thailand was expected to experience a small growth in the financial year. The Covid-19 outbreak has dimmed such prospects. Lockdown measures have caused the construction industry in all these countries to virtually grind to a stop for 3-4 months. Government subsidies on manpower costs could only contribute to a small portion of the total expenses. These were insufficient to stem the losses incurred.

Most construction activities already experienced a significant slowdown since February 2020. Local governments outside China imposed official lockdown from Mar/April at the height of the disease outbreak. Our construction sector accordingly suffered a significant drop in new orders. We expect to see a lifting of these measures only at end August 2020 and are hopeful of a recovery.

Precision Engineering & Technologies
Revenue from precision engineering and the technologies sector decreased by 48.2% in the full year as compared with the previous year. The 4 months lockdown have caused our customers to hold back on their automation projects resulting in a dearth of new orders. Covid-19 is expected to change the demand landscape. Safe distancing may well form the norm in the planning for future production flows that may generate increased consideration for automation in industries. This is reinforced by the potentially increasing adoption of 5G that enables remote controls, monitoring of operations and quality management.

Customers' enquiries have resurged following the partial reopening of businesses. We expect them to gain momentum. The semiconductor market has been greatly dampened by the trade war between the USA and China. The semiconductor and communications sector were main targets. Our customers were affected by this trade war which has escalated into a geopolitical strategic competition between the 2 countries. We expect to experience short term setbacks in demand. However, China is foreseen to eventually evolve in the near future with new chip capabilities giving a very strong demand push for semiconductors and the machinery to produce them.

The surgical mask line just entered into commercial production is not expected to have an immediate impact on the Group for the next 12 months. However, in the long term, we expect it to generate recurrent revenue for the Group to complement our mainly capital goods business.

Industrial & Mobile Hydraulics
This sector, as with most businesses, was impacted by the Covid-19 lockdown. As demand for goods and manufacturing slowed, demand for servicing and parts replacement likewise dropped. Otherwise this sector had been relatively consistent year by year.

Financial Position
The Group's financial position remains satisfactory: -

Classification	Increase/(Decrease) S$ million	As at 30 Jun 20 S$ million	As at 30 Jun 19 S$ million
Net Assets	(0.27)	65.78	66.05
Net Working Capital	2.83	22.67	19.84
Cash in Hand and at Bank	(3.51)	11.51	15.02

Cash Policy and Gearing Ratio
As at 30 June 2020, the Group's gearing ratio is 48.73% (30 June 2019: 11.64%). Gearing ratio has been arrived at by dividing our interest-bearing liabilities less cash and cash equivalents over capital. The Group has increased its gearing to strengthen its working capital. Adoption of AASB 16 *Leases* increased gearing ratio by 11.96%. Had the Group not adopted AASB 16, as in the past, the gearing ratio would have been 36.77%. AASB 16 *Leases* requires the recognition of outstanding future lease rentals as lease liabilities which were not recognised previously.

Return per Share
The Group's earnings and net tangible assets per share are as follows: -

Classification	Decrease Singapore Cents	2020 Singapore Cents	2019 Singapore Cents
(Loss)/earnings per share from continuing operations	1.13	(0.33)	0.80

The weighted average shares used to compute basic earnings per share are 217,140,780 for this year and the previous year.

Classification	Decrease Singapore Cents	As at 30 Jun 20 Singapore Cents	As at 30 Jun 19 Singapore Cents
Net tangible assets per share	3.57	23.34	26.91

With the adoption of AASB 16 *Leases* on 1 July 2019, the calculation of net tangible assets per share as at 30 June 2020 includes lease liabilities but excludes the associated right-of-use intangible asset. Had AASB 16 not been adopted for the year ended 30 June 2020, net tangible assets per share as at 30 June 2020 would have been Singapore 26.95 cents, an increase of Singapore 0.04 cents per share.

Capital Expenditure
For the year ending 30 June 2021, the Group does not plan to invest in any major capital equipment.

Confirmed Orders
We have a total of S$53.6m (30 June 2019: S$97.7m) outstanding confirmed orders in hand as at 30 June 2020. A breakdown of these outstanding confirmed orders are as follows: -

	S$ m
Offshore Marine, Oil & Gas Machinery	41.1
Construction Equipment	4.9
Precision Engineering & Technologies	6.8
Industrial & Mobile Hydraulics	0.8
Total	53.6

Above are scheduled to be delivered in the financial year 2021. As lockdown measures ease, we have begun to experience a gradual resurgence in customer demand. We are hopeful that barring no deterioration in the global trade war and the pandemic situation, and lockdown measures continue to be lifted and travel restrictions eased, the Group can be positioned for a strong recovery.

Prospects
The global trade war between USA and China is giving rise to greater challenges as it escalates into a geopolitical strategic competition for controls. The situation appears to deteriorate as we progress towards the impending USA election. The situation compounded the already precarious global trade situation caused by the Covid-19 pandemic. Near term business prospects therefore would be affected as the uncertainties have caused business decisions to be held back.

The Group continues to focus on developing its business direction and on projects identified in the pipeline to maintain its revenue level and hopefully to generate growth in the midst of all these uncertainties. It is hopeful, barring no further deterioration of existing global conditions and the pandemic situation.

Dividends
The Board feels that at this juncture it would not be prudent to consider any dividend payment for the year just ended. The Group focuses on preservation of cash to maintain and strengthen its working capital and to buffer against any deterioration of the global economic and pandemic situation.

Signed in accordance with a resolution of the Board of Directors.

GL Sim
Chairman

Preliminary Consolidated Statement of Profit or Loss

for the year ended 30 June 2020

	Note	2020 S$'000	2019 S$'000
Continuing operations			
Revenue from contracts with customers	3	99,076	92,973
Rental income		1,870	4,487
Revenue		100,946	97,460
Other income	4	2,329	2,157
Total consolidated revenue and income		103,275	99,617
Cost of materials		(60,948)	(48,169)
Employee, contract labour and related costs		(24,659)	(29,867)
Depreciation and amortisation		(6,561)	(5,075)
Property related expenses		(165)	(2,528)
Other operating expenses		(9,487)	(11,815)
Finance costs		(1,533)	(893)
Share of results of associate	10	(394)	332
(Loss)/profit before taxation		(472)	1,602
Tax (expense)/benefit	5	(359)	10
(Loss)/profit from continuing operations, net of tax		(831)	1,612
Discontinued operations			
Loss from discontinued operations, net of tax		–	(1,305)
(Loss)/profit for the year		(831)	307
Attributable to:			
Equity holders of the parent			
Continuing operations		(709)	1,737
Discontinued operations		–	(1,282)
		(709)	455
Non-controlling interests		(122)	(148)
(Loss)/profit for the year		(831)	307
Earnings per share (cents)			
Basic (loss)/earnings per share			
Continuing operations	6	(0.33)	0.80
Discontinued operations	6	–	(0.59)
Total		(0.33)	0.21
Diluted (loss)/earnings per share			
Continuing operations	6	(0.33)	0.80
Discontinued operations	6	–	(0.59)
Total		(0.33)	0.21

Preliminary Consolidated Statement of Comprehensive Income

for the year ended 30 June 2020

	Note	**2020** S$'000	**2019** S$'000
(Loss)/profit for the year		(831)	307
Other comprehensive income			
Items that will not be reclassified to profit or loss (net of tax):			
Revaluation of land and buildings		–	13,547
		–	13,547
Items that may be subsequently reclassified to profit or loss (net of tax):			
Share of other comprehensive income of associate		–	38
Foreign currency translation on consolidation		510	80
		510	118
Other comprehensive income for the year, net of tax		510	13,665
Total comprehensive (loss)/income for the year		(321)	13,972
Total comprehensive (loss)/income attributable to:			
Equity holders of the Parent		(199)	14,120
Non-controlling interests		(122)	(148)
Total comprehensive (loss)/income		(321)	13,972

Preliminary Consolidated Balance Sheet

as at 30 June 2020

	Note	2020 S$'000	2019 S$'000
Non-current assets			
Property, plant and equipment		34,320	36,874
Right-of-use assets		8,740	–
Intangible assets		7,116	7,355
Deferred tax assets		2,459	2,819
Investment in associate	10	3,337	3,731
		55,972	50,779
Current assets			
Cash and bank balances	8	11,508	15,024
Inventories		28,126	32,113
Trade and other receivables		9,841	20,429
Contract assets		38,237	1,352
Contract costs		1,286	1,087
Prepayments		356	422
Tax recoverable		195	170
		89,549	70,597
TOTAL ASSETS		145,521	121,376
Current liabilities			
Trade and other payables		28,921	17,656
Contract liabilities		2,093	9,508
Lease liabilities		1,936	240
Other interest-bearing liabilities	11	32,544	21,885
Provisions		1,068	1,178
Provision for taxation		319	291
		66,881	50,758
NET CURRENT ASSETS		22,668	19,839
Non-current liabilities			
Lease liabilities		6,848	273
Other interest-bearing liabilities	11	2,133	283
Deferred tax liabilities		3,310	3,542
Provisions		569	467
		12,860	4,565
TOTAL LIABILITIES		79,741	55,323
NET ASSETS		65,780	66,053
Equity attributable to equity holders of the Parent			
Share capital	12	21,100	21,100
Reserves		11,266	11,407
Retained earnings		33,209	33,270
		65,575	65,777
Non-controlling interests		205	276
TOTAL EQUITY		65,780	66,053
TOTAL LIABILITIES AND EQUITY		145,521	121,376

Preliminary Consolidated Statement of Changes in Equity

for the year ended 30 June 2020

	Note	Attributable to equity holders of the Parent								
		Share capital	**Share capital – exercise of share options**	**Asset revaluation surplus**	**Foreign currency translation reserve**	**Share-based payments reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
		S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Balance at 1.7.2019		20,628	472	13,055	(1,789)	141	33,270	65,777	276	66,053
Loss for the year		–	–	–	–	–	(709)	(709)	(122)	(831)
Other comprehensive income										
Foreign currency translation		–	–	–	510	–	–	510	–	510
Total comprehensive (loss)/income for the year		–	–	–	510	–	(709)	(199)	(122)	(321)
Share-based payments		–	–	–	–	48	–	48	–	48
Forfeiture of employee share options		–	–	–	–	(116)	116	–	–	–
Transfer of depreciation for buildings		–	–	(583)	–	–	583	–	–	–
Acquisition of non-controlling interests	9	–	–	–	–	–	(51)	(51)	51	–
Balance at 30.06.2020		20,628	472	12,472	(1,279)	73	33,209	65,575	205	65,780

Preliminary Consolidated Statement of Changes in Equity (cont'd)

for the year ended 30 June 2020

	Note	Attributable to equity holders of the Parent								
		Share capital	**Share capital – exercise of share options**	**Asset revaluation surplus**	**Foreign currency translation reserve**	**Share-based payments reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
		S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Balance at 1.7.2018 - as previously reported		37,842	472	–	(1,907)	345	32,581	69,333	218	69,551
Effect of adopting AASB 9		–	–	–	–	–	(490)	(490)	–	(490)
Effect of adopting AASB 15		–	–	–	–	–	(468)	(468)	–	(468)
Balance at 1.7.2018 – as restated		37,842	472	–	(1,907)	345	31,623	68,375	218	68,593
Profit for the year		–	–	–	–	–	455	455	(148)	307
Other comprehensive income										
Revaluation of land and buildings		–	–	13,547	–	–	–	13,547	–	13,547
Foreign currency translation		–	–	–	118	–	–	118	–	118
Total comprehensive income for the year		–	–	13,547	118	–	455	14,120	(148)	13,972
Share-based payments		–	–	–	–	21	–	21	–	21
Forfeiture of employee share options		–	–	–	–	(7)	7	–	–	–
Transfer of depreciation for buildings		–	–	(492)	–	–	492	–	–	–
Acquisition of non-controlling interests		–	–	–	–	–	(284)	(284)	413	129
Share capital reduction		(17,214)	–	–	–	–	–	(17,214)	–	(17,214)
Gain on demerger		–	–	–	–	–	977	977	–	977
Disposal of a subsidiary		–	–	–	–	–	–	–	(11)	(11)
Discontinued operations		–	–	–	–	(218)	–	(218)	(196)	(414)
Balance at 30.06.2019		20,628	472	13,055	(1,789)	141	33,270	65,777	276	66,053

Preliminary Consolidated Statement of Cash Flows
for the year ended 30 June 2020

(In Singapore dollars)

	Note	2020 S$'000	2019 S$'000
Cash flows from operating activities:			
(Loss)/profit before taxation from continuing operations		(472)	1,602
Loss before taxation from discontinued operations		–	(1,309)
Operating (loss)/profit before taxation		(472)	293
Adjustments for:			
Depreciation of property, plant and equipment		3,766	4,390
Depreciation of right-of-use assets		2,301	–
Amortisation of intangible assets		494	910
Bad debts written off		1	96
(Write-back of)/ allowance for doubtful debts, net		(315)	926
Allowance for inventory obsolescence, net		499	95
Inventories written off		35	23
Finance costs		1,533	897
Interest income		(38)	(70)
Property, plant and equipment written off		–	4
Intangible assets written off		–	220
Gain on disposal of property, plant and equipment, net		(24)	(8)
Trade and other payables written back		(3)	–
Non-trade receivables written off		–	116
Provisions made, net		246	478
Share-based payments		48	21
Gain on disposal of a subsidiary		–	(1,630)
Share of results of associate	10	394	223
Unrealised exchange differences		358	(150)
Operating profit before reinvestment in working capital		8,823	6,834
Decrease/(increase) in stocks and work-in-progress		3,970	(8,772)
Decrease in projects-in-progress		–	1,915
Increase in contract assets		(36,885)	(1,352)
(Decrease)/increase in contract liabilities		(7,415)	9,508
Decrease/(increase) in debtors		10,749	(2,230)
Increase in creditors		10,451	1,111
Cash (used in)/generated from operations		(10,307)	7,014
Interest received		38	47
Interest paid		(1,006)	(921)
Income taxes paid		(230)	(326)
Net cash (used in)/generated from operating activities		(11,505)	5,814

Preliminary Consolidated Statement of Cash Flows (Cont'd)

	Note	2020	2019
		S$'000	S$'000
Cash flows from investing activities:			
Purchase of property, plant and equipment		(1,213)	(1,027)
Proceeds from disposal of property, plant and equipment		31	14
Purchase of computer software		(57)	(24)
Increase in development expenditure		(181)	(426)
Increase in patented technology		–	(12)
Investment in associate4		–	(222)
Net cash outflow on demerger		–	(2,109)
Net cash outflow on disposal of a subsidiary		–	(7)
Net cash used in investing activities		(1,420)	(3,813)
Cash flows from financing activities:			
Increase/(decrease) in bills payable		10,679	(194)
Proceeds from bank borrowings		2,000	4,000
Repayments of bank borrowings		(1,260)	(1,756)
(Repayment)/proceed of loans from a related party		(35)	1,112
Proceeds from/(repayment of) hire purchase creditors		100	(392)
Repayment of lease liabilities		(2,062)	–
Net cash generated from financing activities		9,422	2,770
Net (decrease)/increase in cash and cash equivalents		(3,503)	4,771
Net foreign exchange differences		(4)	14
Cash and cash equivalents at beginning of year		13,741	8,956
Cash and cash equivalents at end of year	8	10,234	13,741

Note 1 Summary of significant accounting policies

This preliminary final report has been prepared in order to comply with ASX *listing rules*.

This report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that this report be read in conjunction with the annual report for the year ended 30 June 2019, the interim financial report for the half-year ended 31 December 2019 and considered together with any public announcements made by Zicom Group Limited during the year ended 30 June 2020 in accordance with the continuous disclosure obligations of the ASX *listing rules*.

The accounting policies applied by the consolidated entity are consistent with those applied by the consolidated entity in the annual financial report for the year ended 30 June 2019, except for the adoption of new and revised standards effective for the current reporting period. Other than AASB 16, the adoption of these standards and interpretations had no material impact on the financial position or performance of the Group.

On 1 July 2019, the Group adopted AASB 16 *Leases* which became effective for annual period beginning on or after 1 January 2019. AASB 16 *Leases* replaces AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases – Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases on the balance sheet.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 did not have an impact for leases when the Group is the lessor.

The Group adopted AASB 16 using the modified retrospective method of adoption, with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Therefore, the comparative information was not restated and continues to be reported under AASB 117.

For leases previously recognised as operating leases under AASB 117, the Group recognised right-of-use assets and lease liabilities except for short-term leases and low-value assets. The lease liability is measured at the present value of remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The right-of-use asset was measured at an amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments.

For leases previously classified as finance leases, the Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application (i.e the right-of-use assets and lease liabilities equal to the lease assets and liabilities recognised under AASB 117). The requirements of AASB 16 were applied to these leases from 1 July 2019.

The Group has elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying AASB 117 at the date of initial application. The Group also applied the available practical expedients wherein it:

- Applied the exemption for leases with less than 12 months remaining lease term at 1 July 2019 and those lease contracts for which the underlying asset is low value;
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application as an alternative to performing an impairment review;
- Applied the exemption not to separate non-lease components from lease components, and instead, account for each lease component and any associated non-lease components as a single lease component; and
- Used hindsight to determine the lease term when the contract contains options to extend or terminate the lease.

Note 1 Summary of significant accounting policies (cont'd)

The effect of adoption of AASB 16 is as follows:

As at 1 July 2019:

- Right-of-use assets of S$9,621,000 were recognised and presented separately on the balance sheet. This includes the lease assets recognised previously under finance leases of S$513,000 that were reclassified from Property, plant and equipment.
- Additional lease liabilities of S$9,108,000 were recognised and presented separately on the balance sheet.
- The net deferred tax impact on transition was nil.

For the year ended 30 June 2020:

- Property related expenses decreased by S$2,264,000 as lease payments are replaced with depreciation and interest expense.
- Depreciation expense increased by S$2,146,000 arising from right-of-use assets recognised.
- Interest expense increased by S$342,000 relating to additional lease liabilities recognised.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

	S$'000
Assets	
Operating lease commitments as at 30 June 2019	10,532
Less:	
Commitments relating to short-term leases	(22)
Commitments relating to leases of low-value assets	(9)
	10,501
Weighted average incremental borrowing rate as at 1 July 2019	4.1%
Discounted operating lease commitments as at 1 July 2019	8,597
Add:	
Commitments relating to leases previously classified as finance leases	513
Lease payments relating to renewal periods not included in operating leases	511
Lease liabilities as at 1 July 2019	9,621

Note 2 Segment information

Identification of reportable segments

The group has identified its operating segments based on internal reports that are reviewed and used by the chief operating decision maker and the executive management team in assessing performance and in determining the allocation of resources. The operating segments are identified based on products and services as follows:

- Offshore Marine, Oil & Gas Machinery – manufacture and supply of deck machinery, gas metering stations, gas processing plants and related equipment, parts and services.
- Construction Equipment – manufacture and supply of concrete mixers and foundation equipment, including equipment rental, parts and related services.
- Precision Engineering & Technologies – manufacture and supply of precision and automation equipment including flip chip bonders, supply of medtech equipment, medical consumables and engineering services.
- Industrial & Mobile Hydraulics – supply of hydraulic drive systems, parts and services.

Intersegment sales
Intersegment sales are recognised based on internally set transfer price at arm's length basis.

Unallocated revenue and expenses
Unallocated revenue comprise mainly non-segmental revenue. Unallocated expenses comprise mainly non-segmental expenses such as head office expenses.

Note 2 Segment information (cont'd)

	Offshore Marine, Oil & Gas Machinery S$'000	Construction Equipment S$'000	Precision Engineering & Technologies S$'000	Industrial & Mobile Hydraulics S$'000	Consolidated S$'000
For year ended 30 June 2020					
Revenue					
Sales to external customers	52,623	24,187	20,682	1,584	99,076
Rental income	–	1,870	–	–	1,870
Other income	314	679	1,119	8	2,120
Intersegment sales	–	–	60	164	224
Total segment revenue	52,937	26,736	21,861	1,756	103,290
Intersegment elimination					(224)
Unallocated revenue					171
Interest income					38
Total consolidated revenue					103,275
Results					
Segment profit/(loss)	6,290	(2,261)	(639)	17	3,407
Unallocated revenue					171
Unallocated expenses					(2,161)
Share of results of associate			(394)		(394)
Profit before tax and finance costs					1,023
Finance costs					(1,533)
Interest income					38
Loss before taxation					(472)
Tax expense					(359)
Loss after taxation					(831)

	Offshore Marine, Oil & Gas Machinery S$'000	Construction Equipment S$'000	Precision Engineering & Technologies S$'000	Industrial & Mobile Hydraulics S$'000	Consolidated S$'000
For year ended 30 June 2019					
Revenue					
Sales to external customers	13,165	37,630	40,323	1,855	92,973
Rental income	–	4,475	12	–	4,487
Other income	1	88	1,887	–	1,976
Intersegment sales	–	14	8	271	293
Total segment revenue	13,166	42,207	42,230	2,126	99,729
Intersegment elimination					(293)
Unallocated revenue					134
Interest income					47
Total consolidated revenue					99,617
Results					
Segment profit/(loss)	(3,559)	1,805	5,081	546	3,873
Unallocated revenue					134
Unallocated expenses					(1,891)
Share of results of associate			332		332
Profit before tax and finance costs					2,448
Finance costs					(893)
Interest income					47
Profit before taxation					1,602
Income tax benefit					10
Profit after taxation					1,612

Note 3 Revenue from contracts with customers

	Consolidated	
	2020	**2019**
	S$'000	S$'000
Transferred at a point in time		
Sale of goods	38,750	70,936
Revenue recognised on projects	3,168	–
Transferred over time		
Rendering of services	3,249	5,047
Revenue recognised on projects	53,909	16,990
	99,076	92,973

Note 4 Other operating income

	Consolidated	
	2020	**2019**
	S$'000	S$'000
Interest income	38	47
Gain on disposal of property, plant and equipment	24	5
Trade and other payables written back	3	–
Forfeiture of customer deposit	26	–
Services rendered	343	304
Gain on disposal of a subsidiary	–	1,630
Government grants	1,871	155
Other revenue	24	16
	2,329	2,157

Note 5 Taxation

The major components of income tax expense/(benefit) for the years ended 30 June are:

	Consolidated	
	2020	**2019**
	S$'000	S$'000
Current income tax		
Current income tax charge	1,061	257
Loss transferred under Group Relief Scheme	(872)	–
Adjustments in respect of previous years	44	(2)
Deferred income tax		
Relating to the origination and reversal of temporary differences	107	(108)
Adjustments in respect of previous years	19	(157)
Income tax expense/(benefit)	359	(10)

Note 6 Earnings per share

Basic earnings per share is calculated by dividing the Group's net profit or loss attributable to equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

For the purpose of calculating diluted earnings per share, net profit or loss attributable to equity holders of the Parent and the weighted average number of ordinary shares outstanding are adjusted for effects of all dilutive potential shares.

	Continuing operations		**Discontinued operations**		**Total**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Net (loss)/profit attributable to equity holders of the Parent	(709)	1,737	–	(1,282)	(709)	455
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share ('000)	217,141	217,141	217,141	217,141	217,141	217,141
	Singapore cents		Singapore cents		Singapore cents	
Basic and diluted (loss)/earnings per share	(0.33)	0.80	–	(0.59)	(0.33)	0.21

There were 6,600,000 (2019: 2,550,000) share options excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for the current period presented.

Note 7 Net tangible assets per security

	2020	**2019**
Net tangible assets per ordinary share (Singapore cents)	23.34	26.91

Note 8 Cash and cash equivalents

	2020	**2019**
	S$'000	S$'000
Cash at bank and in hand	11,493	15,009
Short-term fixed deposits	15	15
	11,508	15,024

For the purpose of the cash flow statement, cash and cash equivalents comprised the following:

Cash and short-term deposits	11,508	15,024
Bank overdrafts	(1,274)	(1,283)
Cash and cash equivalents	10,234	13,741

Short-term fixed deposits were pledged for facilities.

Note 9 Investments in subsidiaries

Investment in Zicom Energy Solutions Private Limited ("ZES")

On 30 November 2019, Zicom Private Limited ("ZPL"), a wholly-owned subsidiary, increased its investment in ZES by way of capitalisation of an amount of S$137,000 owed by ZES to ZPL, increasing the Group's interest in ZES from 51% to 59%. The effect on the change in interest in ZES amounting to S$51,000 has been recognised within equity.

Note 10 Investment in associate

Movement in the carrying amount of the Group's investment in associate:

	Consolidated	
Emage Vision Pte Ltd ("EV")	**2020**	**2019**
Shareholdings held: 16.29% (30 Jun 19: 16.29%)	S$'000	S$'000
Principal place of business: Singapore		
At beginning of year	3,731	–
Investment during the year	–	3,473
Share of results after income tax	(394)	332
Dividend received	–	(74)
At end of year	3,337	3,731

Although the Group holds less than 20% of equity interest in EV, the Group has the ability to exercise significant influence through its shareholdings and participation on EV Board of Directors.

Note 11 Other interest-bearing liabilities

	Consolidated	
	2020	**2019**
	S$'000	S$'000
Current		
Bank overdrafts (Note 8)	1,274	1,283
Bills payable	16,088	4,275
Revolving term loans	12,600	13,700
Term loans	153	163
Loans from a related party	2,429	2,464
	32,544	21,885
Non-Current		
Term loans	2,133	283

Note 12 Share capital

	2020	2019	2020	2019
	No. of shares (Thousands)		S$'000	S$'000
Ordinary fully paid shares	217,141	217,141	21,100	21,100

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

There was no movement in share capital during the financial year.

This Report is based on accounts to which one of the following applies.

☐	The accounts have been audited	☐	The accounts have been subject to review
✔	The accounts are in the process of being audited or subject to review.	☐	The accounts have not yet been audited or reviewed**.**

Signed …………………………………… **Date:** 31 August 2020
(Director/ Company Secretary)