BROADWAY
INDUSTRIAL GROUP LIMITED

# Annual Report 2012

INNOVATION

# Contents



"There is no one, right way to design or develop anything. To a large degree, it needs to reflect the culture — especially the Innovation culture — of a company."

- Nathan Shedroff

# Corporate Profile

Broadway Industrial Group Limited ("Broadway") is a leading manufacturer of precision-machined components and engineered foam plastic solutions provider, offering an excellent mix of cost-efficient manufacturing facilities, state-of-the-art technologies, experienced management team, and innovative solutions to a global customer base.

Founded in 1969 and listed on the SGX Mainboard in 1994, Broadway and its subsidiaries (the "Group") comprises over 15 manufacturing facilities across China, Thailand and the USA and employs more than 12,000 people worldwide.

Through its wholly-owned subsidiary, Compart Asia Pte Ltd, Broadway is one of the top manufacturers of actuator arms and related assembled parts for the global hard disk drive ("HDD") industry. Other than the HDD industry, Compart also supplies precision components to the semiconductor, automotive and other industries.

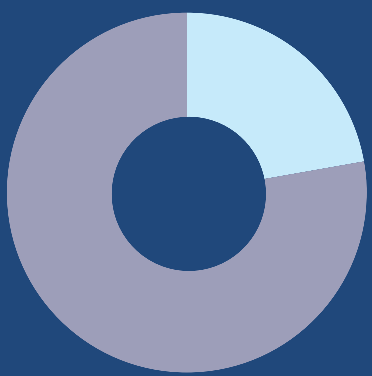
With over 40 years of track record, Broadway is also a leading-edge producer of eco-friendly foam plastic solutions for protective packaging, insulation, automotive, medical and other applications. With an emphasis on innovation, quality and reliability, Broadway's Foam Plastics division has developed a strong pool of global customers in the consumer electronics, automotive, construction, shipbuilding and other emerging industries.

For more information, please visit our website at www.bw-grp.com.

BROADWAY INDUSTRIAL GROUP LIMITED

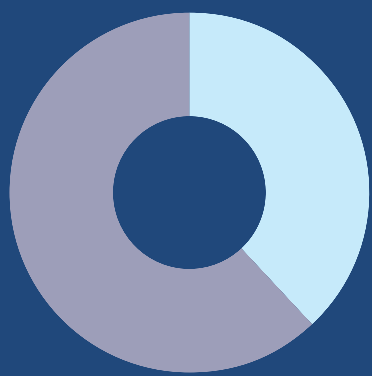
- BROADWAY (Foam Plastics)
  - Protective Packaging
  - Automotive & Other Components
- COMPART (Precision Components)
  - HDD Actuator Arm & Assembly
  - Semiconductor & Other Industrial Components

Sales Breakdown averaged across last 5 years



Precision Components 78%
Foam Plastics 22%

Profit before tax breakdown averaged across last 5 years



Precision Components 64%
Foam Plastics 36%

# Chairman's Statement

## Dear Shareholders,

The year ended 31 December 2012 ("FY2012") was a challenging year for our businesses, with continued global economic instability in Europe and the US, continued rises in the cost of labor in China, as well as an unprecedented downturn in the HDD industry.

The HDD industry experienced a roller coaster year. While 1Q2012 was largely spent completing the recovery from the Thailand floods in 2011, 2Q2012 saw a record number of orders as manufacturers re-stocked their inventory. Many suppliers, including our HDD business, did not have sufficient capacity for the volume of orders that came in. Instead of a further ramp up in 3Q2012, the industry bucked historical trends and orders suddenly declined steeply by 11% to 139.2 million units, reversing the gain that took place in 2Q2012. The shipments represented the lowest third-quarter shipment level in at least the past five years. As a result, the HDD industry went through an unprecedented two years of shipment decline, with Trendfocus reporting a 7% decline in 2012 shipments.

Our HDD business, under our subsidiary Compart, had to cope with the ramp up and consequently suffered during the sudden decline of the HDD industry. It was also hit by weakness in the macro environment and issues relating to inventory management in the industry supply chain.

Our Compart management team has doubled their efforts to speed up existing projects to increase automation and shift back-end processes further inland in order to cut costs and increase efficiency. In addition, they have embarked on measures to right size and streamline its operations and re-work the cost model for its operations. Most of our HDD business' back-end processes have already been successfully shifted from Shenzhen to Chongqing, where the labour costs are about 30% lower.

Our Non-HDD business was also affected by a slowdown in the semi-conductor and automotive industries in 2H2012. The management team swiftly stabilized its cost model and completed the consolidation of its facilities by the end of FY2012, and is well positioned to operate on a lean structure through the down cycle of the industry.

Our Foam Plastics business experienced slow growth due to a general slowdown in the global economy.

Since our listing in 1994, Broadway has survived and grown through various global and economic crises. While the global economy remains shaky, we remain confident that our established business and the motivation and dedication of our staff worldwide will allow us to overcome any obstacles in our way.

Given the various uncertainties in the HDD industry and the global economy, Broadway will not be declaring a final dividend in order to conserve cash. We will seek to reward shareholders in the near future once the outlook stabilizes.

### Financial Review

The Group achieved a 13.7% increase in revenue to S$615.7 million from S$541.5 million in FY2011. This was largely due to a 16.6% increase in HDD sales to S$399.8 million (as the HDD sales in FY2011 were affected by the Thailand floods) and a 13.6% increase in the Foam Plastics division's sales to S$173.0 million. Our Non-HDD precision components segment's sales declined 7.5% to S$42.9 million as a result of the contraction in the semi-conductor industry.

The HDD division recorded profit before tax of S$5.8 million in FY2012, up from S$3.1 million in FY2011 when the Thailand floods occurred. The division was affected by the sudden unforeseen decline in the HDD industry in 2H2012.

Our Non-HDD precision components division recorded a higher loss before tax of S$1.1 million in FY2012 compared to a loss of S$281,000 in FY2011 as the semi-conductor industry contracted and due to one-off costs incurred in the consolidation of our facilities in Shenzhen.

The Foam Plastics division maintained stable sales growth, but profit before tax experienced a slight decrease to S$8.7 million from S$8.9 million in FY2011, mainly due to higher labor and manufacturing costs.

FY2012 has been a challenging year for Broadway as rising labor and manufacturing costs in China impacted our operating profit margins, the global economy remains in the doldrums, and the HDD industry experiencing a sharp and sudden decline.

Overall, the Group reported a net profit of S$24.5 million attributable for shareholders in FY2012, compared to a net loss of S$7.2 million in FY2011, on the back of strong sales from our Foam Plastics division and the recovery of S$13.3 million in proceeds arising from insurance claims in relation to the Thailand floods.

The Group continued to generate positive operating cash flows of S$39.1 million in FY2012 as compared to S$25.5 million in FY2011. The Group's net gearing rose to 63.5% in FY2012 from 39.3% in FY2011 with increased borrowings to finance working capital requirements, capacity expansion and the development of new businesses. Our net asset value per share stood at 50.16 cents per share as at 31 December 2012.

### Outlook and Future Prospects

We are overall cautious that demand for HDD will stabilize in the coming 6 months, following Trendfocus' estimates that shipments will dip 2.4% to 565.8 million in 2013. In light of the near term weaknesses of the HDD industry, the Group will continue its efforts to right-size its operations and lower costs to establish a more streamlined

operation to deal with lower demand. That being said, even with flat growth, the HDD industry remains a high volume industry with our Compart group as the second largest supplier of actuator arms globally, and we expect to return to stable profitability upon implementation of our leaner operational and cost structure.

In relation to our Non-HDD precision components business, research firms have estimated modest growth for the semi-conductor industry in 2013 with a ramp up in 2014. While we remain conservative on forecasted growth, our operations have been scaled to operate efficiently to ride through the semi-conductor downcycle, with the flexibility to ramp up if the industry starts on an upswing. We will also continue to push to maximize profits by expanding our product offerings to existing customers as well as pulling in new customers with our existing capabilities.

The Foam Plastics division is expected to continue its growth momentum in line with China's economy, with think-tanks and economists estimating an 8.5% GDP growth for China in 2013. We will also continue to expand our product offerings and secure more projects from new and existing clients, increasing market share in China, and to grow the packaging and components units of the division.

Overall, with the weak HDD demand, we will emphasize on growing our Non-HDD precision components and our Foam Plastics businesses, and we expect to push the Group to a more balanced and diversified income stream.

In view of the above developments, FY2013 will remain a challenging year for us.

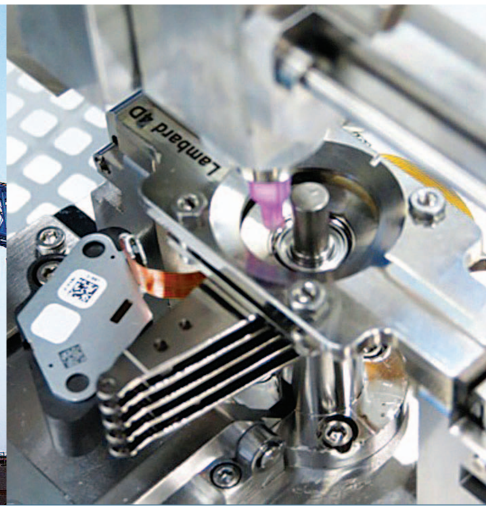
**"The Group achieved a 13.7% increase in revenue to S$615.7 million from S$541.5 million in FY2011. This was largely due to a 16.6% increase in HDD sales to S$399.8 million and a 13.6% increase in the Foam Plastics division's sales to S$173.0 million."**

## Appreciation

On behalf of the Board, I would like to express my gratitude to our management and staff for their hard work, as well as loyal customers, shareholders, bankers and business partners for their support during this challenging year. Last but not least, I would like to thank my fellow Board members for their strong support and invaluable advice through the years.

**WONG SHEUNG SZE**
*Executive Chairman*
*Broadway Industrial Group Limited*

# Board of Directors



### MR WONG SHEUNG SZE
Group Executive Chairman, 63

Mr Wong Sheung Sze has managed the Group for more than 30 years since joining the company in 1976. Under his astute leadership, Broadway has grown to become a global leader in precision-machined components and engineered foam plastic solutions. Leading an experienced management team, Mr Wong is responsible for the Group's overall business performance, as well as strategy formulation and corporate direction. Mr Wong was last re-elected on 27 April 2012.

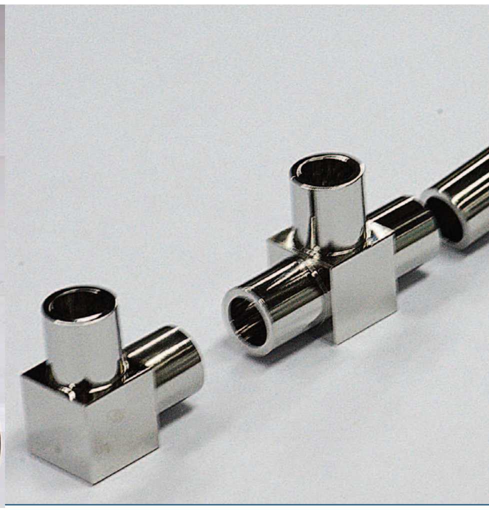
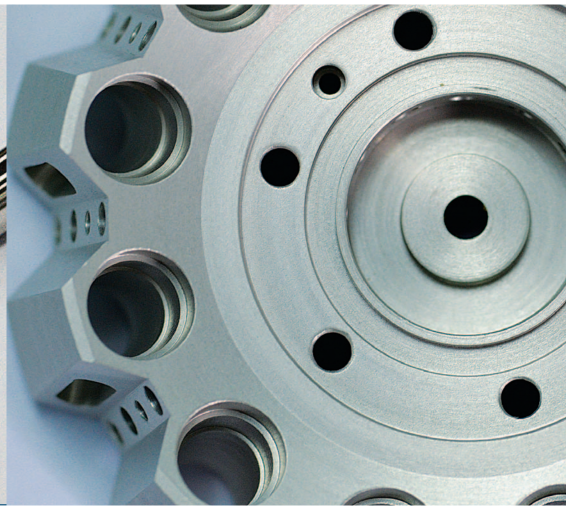
### MR NG AH HOY
Executive Director, 62

Mr Ng has more than 30 years of management experience in the electronics and manufacturing industry. He is currently the Senior Managing Director of the Group's Foam Plastics division, responsible for its business operations and growth direction. Prior to joining the Group in 1990, Mr Ng headed the manufacturing operations of several multi-national corporations.

Mr Ng graduated from the University of Singapore with a Bachelor of Engineering Degree in Mechanical Engineering. He was last re-elected as a Director on 27 April 2012.

### MR LEE PO LO @ LEE KHONG KEE
Non-Executive Director, 61

Mr Lee currently acts as a strategic advisor to the Group's Foam Plastics division. Before taking up his current role in 2011, Mr Lee served as the Executive Director of the Group's Foam Plastics division. During his more than 30 years tenure, he led the division's business development and was instrumental in building an extensive international customer base for the Foam Plastics business. Mr Lee is a Colombo Plan Scholar and graduated from the University of Auckland, New Zealand, with an Honours Degree in Mechanical Engineering. He also holds a Masters Degree in Industrial Engineering and a Masters Degree in Business Administration from the National University of Singapore. He is a registered professional engineer with the Singapore Professional Engineer Board. He was last re-elected as a Board Director on 21 April 2011.

## MR LEE CHOW SOON
Independent Director, 73

Mr Lee joined the Board in 1994 and was last re-elected on 27 April 2012. Mr Lee has been practising as an Advocate and Solicitor and is currently a senior partner of Messrs Tan, Lee and Partners, a firm of advocates and solicitors. He holds a Degree in Law from the University of London and an Honours Degree in Law from the University of Singapore.

## MR EU YEE MING RICHARD
Independent Director, 65

Mr Eu joined the Board in 2005 and was last re-elected on 21 April 2011. He is currently the Group Chief Executive Officer of SGX Mainboard listed Eu Yan Sang International Ltd. Mr Eu is also actively involved in community projects and non-profit organisations such as the SIM University (UniSIM) and the National Heritage Board. He graduated with a Bachelor's degree in Law from the London University, UK.

## MR TSIANG AN KAI RICHARD
Independent Director, 52

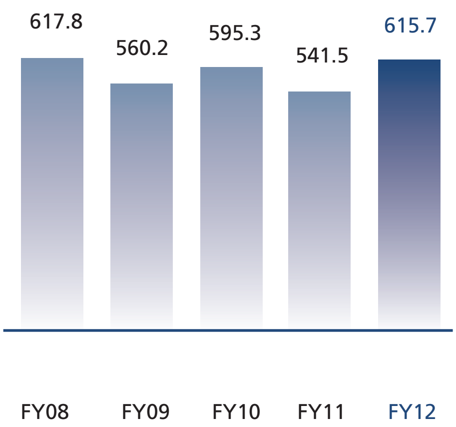
Mr Tsiang was appointed as an Independent Director on 2 November 2011 and was last re-elected on 27 April 2012. He has more than a decade of management experience, with his last appointment being the Chief Development Officer of Melco Crown Entertainment. Prior to this appointment, he was the Group Chief Financial Officer of MGM Grand in Macau; Senior Vice President and Managing Director, Asia-Pacific for Cendant Corporation, and Chief Financial Officer, Head of Strategy, Asia for Yahoo!. Mr Tsiang has a Bachelor of Commerce and an MBA from the University of Melbourne. He is a chartered accountant having qualified while at PricewaterhouseCoopers in Australia.

## MR LEW SYN PAU
Independent Director, 59

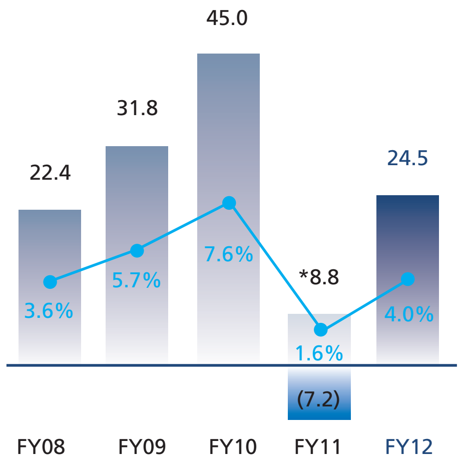
Mr Lew was appointed as an Independent Director on 2 November 2011 and was last re-elected on 27 April 2012. He is currently the Non-Executive Chairman of Achieva Limited, and sits on the boards of various listed companies such as Food Empire Holdings Ltd, Golden-Agri Resources Ltd and Poh Tiong Choon Logistics Ltd. A Singapore Government scholar, Mr Lew began his career with the Singapore Administrative Service. He holds a Masters of Engineering from Cambridge University UK, and a Masters in Business Administration from Stanford University, USA. He was a Member of Parliament from 1988 to 2001.

# Financial Highlights

## SALES (S$' MIL)



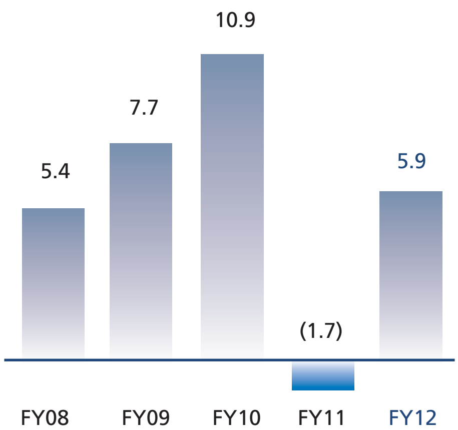

## PATMI (S$' MIL)




*Core profit of S$8.8M, if excluding S$10.4M of net forex loss and S$5.6M of impairment charge due to Thailand floods.

● PATMI Margin

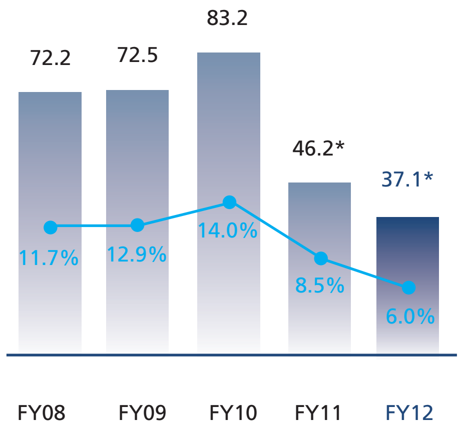
## EPS (S CENTS)




FY '08-'10 figures have been revised to account for the 1-1 bonus issue in 2011

## CORE EBITDA (S$' MIL)

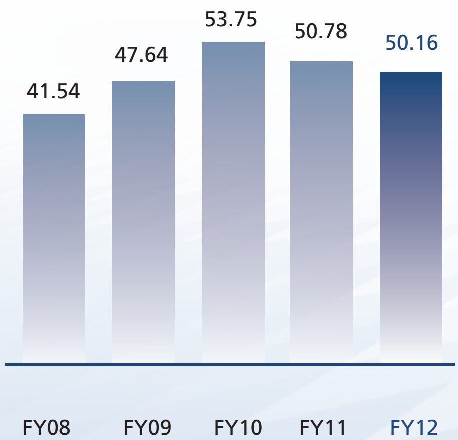
Excluding net forex gain/losses




*Excluding Thailand flood impact (2011) and insurance claim (2012)

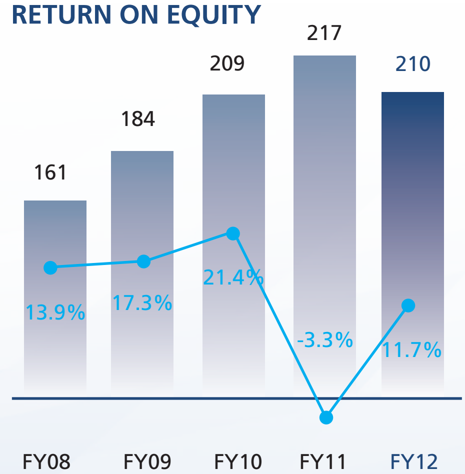
● EBITDA Margin

## NAV PER SHARE (S CENTS)




FY '08-'10 figures have been revised to account for the 1-1 bonus issue in 2011

## RETURN ON EQUITY




ROE calculation based on average shareholders' equity

● Return on Equity

# Corporate Information

**Board of Directors**

Wong Sheung Sze (Executive Chairman)
Ng Ah Hoy (Executive Director)
Lee Po Lo @ Lee Khong Kee (Non-Executive Director)
Lee Chow Soon (Independent Director)
Eu Yee Ming Richard (Independent Director)
Tsiang An Kai Richard (Independent Director)
Lew Syn Pau (Independent Director)

**Audit Committee**

Lee Chow Soon (Chairman)
Eu Yee Ming Richard
Lee Po Lo @ Lee Khong Kee
Tsiang An Kai Richard
Lew Syn Pau

**Remuneration Committee**

Eu Yee Ming Richard (Chairman)
Lee Chow Soon
Lew Syn Pau

**Nomination Committee**

Eu Yee Ming Richard (Chairman)
Lee Chow Soon
Tsiang An Kai Richard
Lew Syn Pau

**Company Secretaries**

Ms Tan San-Ju
Ms Chang Ai Ling

**Business Office**

Broadway Industrial Group Limited
65 Chulia Street
#48-03/04 OCBC Centre
Singapore 049513
Tel : 6236 0088
Fax : 6226 6119

**Registered Office**

50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623
Tel : 6536 5355
Fax : 6536 1360

**Share Registrar**

Boardroom Corporate &
Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623
Tel : 6536 5355
Fax : 6536 1360

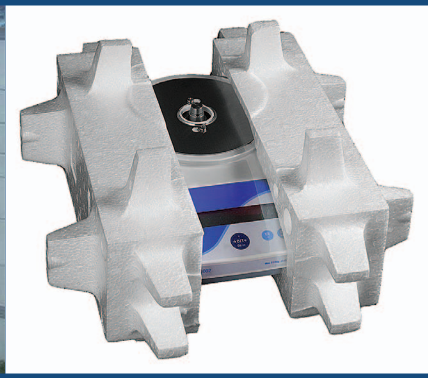
**Auditors**

KPMG LLP
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
Tel : 6213 3388

**Audit Partner-in-charge**

Ms Chu Sook Fun (Appointed in FY2011)

# Financial Contents





"Innovation lies at the heart of both better design and better business. It magnifies drive inside the organization. It slashes the costs of inefficiency, duplication, and corporate ennui. It confers the ability to produce uncommon, yet practical, responses to real problems."

– Marty Neumeier

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2012.

## Directors

The directors in office as at the date of this report are as follows:

Wong Sheung Sze
Lee Chow Soon
Eu Yee Ming Richard
Lee Po Lo @ Lee Khong Kee
Ng Ah Hoy
Tsiang An Kai Richard
Lew Syn Pau

## Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the Act), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

| **Name of director and corporation in which interests are held** | **Holdings at beginning of the year** | **Holdings at end of the year** |
|---|---|---|
| **The Company** | | |
| **Wong Sheung Sze** | | |
| - ordinary shares | | |
| - interests held | 71,918,774 | 73,752,774 |
| - deemed interests | 78,230,000 | 76,396,000 |
| **Lee Po Lo @ Lee Khong Kee** | | |
| - ordinary shares | | |
| - interests held | 1,883,908 | 1,633,908 |
| - options to subscribe for ordinary shares at: | | |
| - $0.45 per share between 03/03/2011 and 03/03/2020 | 150,000 | 150,000 |
| - share awards to be delivered from 2013 | 0 to 40,000(1) | 0 to 40,000(1) |
| - share awards to be delivered from 2014 | – | 0 to 60,000(2) |
| **Ng Ah Hoy** | | |
| - ordinary shares | | |
| - interests held | 760,000 | 760,000 |
| - deemed interests | 60,000 | 60,000 |
| - options to subscribe for ordinary shares at: | | |
| - $0.45 per share between 03/03/2011 and 03/03/2020 | 150,000 | 150,000 |
| - share awards to be delivered from 2013 | 0 to 80,000(1) | 0 to 80,000(1) |
| - share awards to be delivered from 2014 | – | 0 to 60,000(2) |

# Directors' Report (cont'd)

| Name of director and corporation in which interests are held | Holdings at beginning of the year | Holdings at end of the year |
|---|---|---|
| **The Company** | | |
| **Lee Chow Soon** | | |
| - ordinary shares | | |
| - interests held | 400,000 | 400,000 |
| - options to subscribe for ordinary shares at: | | |
| - $0.33 per share between 26/03/2009 and 26/03/2013 | 100,000 | 100,000 |
| - $0.45 per share between 03/03/2011 and 03/03/2015 | 100,000 | 100,000 |
| - $0.50 per share between 04/03/2012 and 04/03/2016 | 100,000 | 100,000 |
| **Eu Yee Ming Richard** | | |
| - ordinary shares | | |
| - interests held | 130,000 | 130,000 |
| - options to subscribe for ordinary shares at: | | |
| - $0.33 per share between 26/03/2009 and 26/03/2013 | 100,000 | 100,000 |
| - $0.45 per share between 03/03/2011 and 03/03/2015 | 100,000 | 100,000 |
| - $0.50 per share between 04/03/2012 and 04/03/2016 | 100,000 | 100,000 |
| **Lew Syn Pau** | | |
| - ordinary shares | | |
| - interests held | 17,728,800 | 17,728,800 |
| - deemed interests | 21,600,000 | 21,600,000 |

(1) The actual number of shares to be delivered will depend on the achievement of set targets over a four-year period from 2012 to 2015.

(2) The actual amount of shares to be delivered will depend on the achievement of set targets over a four-year period from 2013 to 2016.

By virtue of Section 7 of the Act, Wong Sheung Sze is deemed to have interests in the other subsidiaries of Broadway Industrial Group Limited, at the beginning and at the end of the financial year.

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

There were no changes in any of the above mentioned interests in the Company between the end of the financial year end and 21 January 2013.

Except as disclosed under the "Share Options" and "Share Plan" sections of this report, 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 in or debentures of the Company or any other body corporate.

Except for salaries, bonuses and fees and those benefits that are disclosed in this report and in note 33 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

### Share options

The BIGL Share Option Scheme 2001 (the Scheme) of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 8 November 2001. The Scheme is administered by the Company's Remuneration Committee, comprising three directors, Eu Yee Ming Richard, Lee Chow Soon and Lew Syn Pau. The Scheme expired on 7 November 2011.

Other information regarding the Scheme is set out below:

- The options can be exercised 1 year after the grant date for market price options and 2 years after the grant date for incentive options. A further vesting period for the exercise of the options may be set.
- The exercise price of the incentive options can be set at a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant.
- All options are settled by physical delivery of shares.
- The options granted expire after 5 years for non-executive directors and 10 years for employees.

At the end of the financial year, details of the options granted under the Scheme on the unissued ordinary shares of the Company, are as follows:

| Date of grant of options | Exercise price per share $ | Options outstanding as at 1 January 2012 | Options granted | Options exercised | Options forfeited | Options outstanding as at 31 December 2012 | Number of option holders as at 31 December 2012 | Exercise period |
|---|---|---|---|---|---|---|---|---|
| 26/03/2008 | 0.33 | 200,000 | – | – | – | 200,000 | 2 | 26/03/2009 to 26/03/2013 |
| 06/03/2009 | 0.07 | 16,000 | – | – | – | 16,000 | 1 | 06/03/2010 to 06/03/2019 |
| 02/06/2009 | 0.14 | 200,000^ | – | – | – | 200,000 | 1 | 02/06/2011 to 02/06/2019 |
| 03/03/2010 | 0.45 | 1,220,000 | – | – | (190,000) | 1,030,000 | 19 | 03/03/2011 to 03/03/2020 |
| 03/03/2010 | 0.45 | 200,000 | – | – | – | 200,000 | 2 | 03/03/2011 to 03/03/2015 |
| 11/05/2010 | 0.565 | 230,000 | – | – | – | 230,000 | 2 | 11/05/2011 to 11/05/2020 |
| 04/03/2011 | 0.50 | 200,000 | – | – | – | 200,000 | 2 | 04/03/2012 to 04/03/2016 |
| 10/05/2011 | 0.51 | 200,000 | – | – | – | 200,000 | 1 | 10/05/2012 to 10/05/2021 |
| | | 2,466,000 | – | – | (190,000) | 2,276,000 | | |

^ These options were granted at a discount of 20%.

Details of options granted to directors and an employee of the Company under the Scheme are as follows:

| | Aggregate options granted since commencement of Scheme to 31 December 2012 | Aggregate options exercised since commencement of Scheme to 31 December 2012 | Aggregate options outstanding as at 31 December 2012 |
|---|---|---|---|
| **Name of director** | | | |
| Lee Chow Soon | 500,000 | (200,000) | 300,000 |
| Eu Yee Ming Richard | 365,000 | (65,000) | 300,000 |
| Lee Po Lo @ Lee Khong Kee | 960,000 | (810,000) | 150,000 |
| Ng Ah Hoy | 1,010,000 | (860,000) | 150,000 |
| **Name of employee** | | | |
| Lee Wai Leong | 600,000 | – | 600,000 |

Except for the above directors and an employee, no options have been granted to the controlling shareholders of the Company or their associates and no participant under the Scheme has been granted 5% or more of the total options available under the Scheme during the financial year ended 31 December 2012.

Since the commencement of the Scheme, no options have been granted to employees of the Company or its related corporations under the Scheme, except for 29 employees of the Company, of which 2 employees are also the directors of the Company, who were granted options to subscribe for a total of 4,640,000 ordinary shares (adjusted for one-for-one bonus share issue) in the Company.

The options granted by the Company do not entitle the holders of the options, by virtue of such holding, to any rights to participate in any share issue of any other company.

**Share plan**

The BIGL Share Plan (the Plan) of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 28 July 2010. The Plan is administered by the Company's Remuneration Committee, comprising three directors, Eu Yee Ming Richard, Lee Chow Soon and Lew Syn Pau.

The Plan is intended to reward, retain and motivate employees to higher standards of performance and encourage greater dedication and loyalty by enabling the Company to give recognition to outstanding employees of the Group and/or associated companies.

Awards will be released to participants as fully paid shares upon expiry of the prescribed vesting periods or retention periods and subject to conditions prescribed in the Plan.

Employees of the Group and/or associated companies shall be eligible to participate in the Plan, subject to the absolute discretion of the Remuneration Committee. Non-executive directors of the Group and associated companies, controlling shareholders and their associates will not be eligible to participate in the Plan.

As at the date of this report, 1,054,000 shares and 910,000 shares have been granted conditionally under the Plan for the financial years ended 31 December 2011 and 31 December 2012 respectively. The actual number of shares awarded will depend on the achievement of set targets over a four-year period. This will be determined by the Remuneration Committee at the end of the qualifying performance period and released to the recipient over a four-year vesting period in the ratio of 0%, 25%, 25% and 50% consecutively.

The details of the awards granted under the Plan are as follows:

| Date of grant of share awards | Share awards granted and not released as at 1 January 2012 | Share awards granted during the financial year ended 31 December 2012 | Share awards granted since commencement of Plan to 31 December 2012 | Share awards forfeited since commencement of Plan to 31 December 2012 | Share awards granted and not released as at 31 December 2012 |
|---|---|---|---|---|---|
| 4 March 2011 | 1,028,000 | – | 1,054,000 | (176,000) | 878,000 |
| 4 April 2012 | – | 165,000 | 165,000 | (50,000) | 115,000 |
| 4 May 2012 | – | 310,000 | 310,000 | – | 310,000 |
| 4 June 2012 | – | 405,000 | 405,000 | (35,000) | 370,000 |
| 18 July 2012 | – | 30,000 | 30,000 | – | 30,000 |

Details of share awards granted to directors and employees of the Company under the Plan are as follows:

| | Share awards granted and not released as at 1 January 2012 | Share awards granted during the financial year ended 31 December 2012 | Aggregate share awards granted and not released as at 31 December 2012 |
|---|---|---|---|
| **Name of director** | | | |
| Lee Po Lo @ Lee Khong Kee | 40,000 | 60,000 | 100,000 |
| Ng Ah Hoy | 80,000 | 60,000 | 140,000 |
| **Name of employee** | | | |
| Chuah Aik Loon | 68,000 | 60,000 | 128,000 |
| Kwok Shing Yan | 110,000 | 55,000 | 165,000 |
| Lee Wai Leong | 80,000 | 40,000 | 120,000 |

Except for the above directors and employees, no share awards have been granted to the controlling shareholders of the Company or their associates and no participant under the Plan has been granted 5% or more of the total share awards available under the Plan during the financial year ended 31 December 2012.

Since the commencement of the Plan, no share awards have been granted to employees of the Company or its related corporations under the Plan, except for 30 employees of the Company, of which 2 employees are also the directors of the Company, who were granted share awards of a total of 1,964,000 ordinary shares (adjusted for the one-for-one bonus share issue in 2011) in the Company.

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted and no shares awarded by the Company or its subsidiaries as at the end of the financial year ended 31 December 2012.

The aggregate number of shares available under the Scheme, the Plan and any other applicable share-based schemes shall not exceed 15% of the Company's total issued shares (excluding treasury shares).

## Audit Committee

The members of the Audit Committee during the year and as at the date of this report are:

Lee Chow Soon (Chairman), non-executive director
Eu Yee Ming Richard, non-executive director
Tsiang An Kai Richard, non-executive director
Lew Syn Pau, non-executive director
Lee Po Lo @ Lee Khong Kee, non-executive director (retired as executive director with effect from 15 March 2012)

The Audit Committee performs the functions specified in Section 201B of the Act, the SGX Listing Manual and the Code of Corporate Governance.

The Audit Committee has held four meetings since the last directors' report. In performing its functions, the Audit Committee met with the Company's external auditors and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the internal auditors and external auditors;

- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and

- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the external auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing our auditors for the Company, subsidiaries and significant associated companies, we have complied with Rules 712, 715 and 716 of the SGX Listing Manual.

## Auditors

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

**Lee Chow Soon**
*Director*

**Wong Sheung Sze**
*Director*

28 March 2013

# Statement by Directors

In our opinion:

(a) the financial statements set out on pages 18 to 75 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

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

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

**Lee Chow Soon**
*Director*

**Wong Sheung Sze**
*Director*

28 March 2013

# Independent Auditors' Report

Members of the Company
Broadway Industrial Group Limited

**Report on the financial statements**

We have audited the accompanying financial statements of Broadway Industrial Group Limited (the Company) and its subsidiaries (the Group), which comprise the statements of financial position of the Group and the Company as at 31 December 2012, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 18 to 75.

***Management's responsibility 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 Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

***Auditors' responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group for the year ended on that date.

**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 subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

**KPMG LLP**
Public Accountants and
Certified Public Accountants

Singapore

28 March 2013

# Statement of Financial Position

As at 31 December 2012

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | 4 | 217,586 | 142,326 | 166 | 260 |
| Goodwill | 5 | 57,957 | 70,953 | – | – |
| Investment properties | 7 | 3,317 | 3,461 | 2,219 | 2,268 |
| Subsidiaries | 8 | – | – | 140,315 | 142,819 |
| Associates | 9 | 1,198 | 1,179 | 98 | 98 |
| Loans to subsidiaries | 10 | – | – | 280 | 1,282 |
| Loans to investee companies | 11 | 731 | 1,302 | 731 | 1,302 |
| Other investments | 12 | 1,024 | 1,349 | 852 | 1,177 |
| Financial derivatives | 13 | – | 907 | – | – |
| Deferred tax assets | 14 | 12,325 | 7,980 | – | – |
| **Non-current assets** | | 294,138 | 229,457 | 144,661 | 149,206 |
| Financial derivatives | 13 | 363 | 5,498 | – | – |
| Inventories | 15 | 93,095 | 82,774 | – | – |
| Trade and other receivables | 16 | 127,325 | 120,579 | 4,043 | 3,973 |
| Cash and cash equivalents | 17 | 17,556 | 53,674 | 286 | 54 |
| **Current assets** | | 238,339 | 262,525 | 4,329 | 4,027 |
| **Total assets** | | 532,477 | 491,982 | 148,990 | 153,233 |
| **Equity** | | | | | |
| Share capital | | 103,446 | 103,446 | 103,446 | 103,446 |
| Reserves | | (33,152) | (12,330) | 312 | 132 |
| Retained earnings | | 138,121 | 119,852 | 35,453 | 44,764 |
| **Equity attributable to owners of the Company** | | 208,415 | 210,968 | 139,211 | 148,342 |
| **Non-controlling interests** | | 1,254 | 1,393 | – | – |
| **Total equity** | 18 | 209,669 | 212,361 | 139,211 | 148,342 |
| **Liabilities** | | | | | |
| Financial derivatives | 13 | 290 | 9,095 | – | – |
| Loans and borrowings | 19 | 63,265 | 75,165 | 1,420 | 105 |
| Trade and other payables | 21 | 33,685 | – | – | – |
| Deferred tax liabilities | 14 | 272 | 295 | – | – |
| **Non-current liabilities** | | 97,512 | 84,555 | 1,420 | 105 |
| Financial derivatives | 13 | 98 | 16,383 | – | – |
| Loans and borrowings | 19 | 86,567 | 61,318 | 2,160 | 2,057 |
| Trade and other payables | 21 | 125,262 | 103,412 | 5,949 | 2,494 |
| Current tax liabilities | | 13,369 | 13,953 | 250 | 235 |
| **Current liabilities** | | 225,296 | 195,066 | 8,359 | 4,786 |
| **Total liabilities** | | 322,808 | 279,621 | 9,779 | 4,891 |
| **Total equity and liabilities** | | 532,477 | 491,982 | 148,990 | 153,233 |

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

# Consolidated Income Statement

Year ended 31 December 2012

| | Note | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| Revenue | 23 | 615,735 | 541,469 |
| Cost of sales | | (564,985) | (481,971) |
| **Gross profit** | | 50,750 | 59,498 |
| Other income | | 36,782 | 12,416 |
| Distribution expenses | | (15,850) | (12,067) |
| Administrative expenses | | (29,093) | (26,382) |
| Sales and marketing expenses | | (10,081) | (10,515) |
| Other expenses | | (4,389) | (26,395) |
| **Results from operating activities** | | 28,119 | (3,445) |
| Finance income | | 660 | 793 |
| Finance costs | | (5,281) | (3,187) |
| **Net finance costs** | 24 | (4,621) | (2,394) |
| Share of profit of associates (net of tax) | | 161 | 65 |
| **Profit/(Loss) before tax** | 25 | 23,659 | (5,774) |
| Tax credit/(expense) | 26 | 742 | (1,641) |
| **Profit/(Loss) for the year** | | 24,401 | (7,415) |
| **Profit/(Loss) attributable to:** | | | |
| Owners of the Company | | 24,501 | (7,211) |
| Non-controlling interests | | (100) | (204) |
| **Profit/(Loss) for the year** | | 24,401 | (7,415) |
| **Earnings per share** | | | |
| Basic earnings per share (cents) | 27, 35 | 5.897 | (1.735) |
| Diluted earnings per share (cents) | 27, 35 | 5.874 | (1.735) |

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

# Consolidated Statement of Comprehensive Income
Year ended 31 December 2012

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| **Profit/(Loss) for the year** | 24,401 | (7,415) |
| | | |
| **Other comprehensive income** | | |
| Foreign currency translation differences for foreign operations | (20,841) | 3,039 |
| Share of foreign currency translation differences of associates | (200) | – |
| **Other comprehensive income for the year, net of tax** | (21,041) | 3,039 |
| | | |
| **Total comprehensive income for the year** | 3,360 | (4,376) |
| | | |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | 3,499 | (4,259) |
| Non-controlling interests | (139) | (117) |
| **Total comprehensive income for the year** | 3,360 | (4,376) |

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

# Consolidated Statement of Changes in Equity

As at 31 December 2012

| | Share capital $'000 | Reserve for own shares $'000 | Capital reserve $'000 | Share option reserve $'000 | Asset revaluation reserve $'000 | Translation reserve $'000 | Retained earnings $'000 | Equity attributable to owners of the Company $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2011 | 103,100 | (237) | 2,924 | 393 | 870 | (19,208) | 135,377 | 223,219 | 1,506 | 224,725 |
| **Total comprehensive income for the year** | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | (7,211) | (7,211) | (204) | (7,415) |
| ***Other comprehensive income*** | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | – | – | – | – | – | 2,952 | – | 2,952 | 87 | 3,039 |
| **Total comprehensive income for the year** | – | – | – | – | – | 2,952 | (7,211) | (4,259) | (117) | (4,376) |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | | | | |
| ***Contributions by and distributions to owners of the Company*** | | | | | | | | | | |
| Share options exercised | 346 | – | – | (91) | – | – | – | 255 | – | 255 |
| Own shares acquired | – | (156) | – | – | – | – | – | (156) | – | (156) |
| Share-based payment transactions | – | – | – | 223 | – | – | – | 223 | – | 223 |
| Final tax-exempt dividend paid of 2.00 cents per share* in respect of year 2010 to owners of the Company | – | – | – | – | – | – | (4,160) | (4,160) | – | (4,160) |
| Interim tax-exempt dividend paid of 1.00 cents per share in respect of year 2011 to owners of the Company | – | – | – | – | – | – | (4,154) | (4,154) | – | (4,154) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | (104) | (104) |
| Capital injection from non-controlling interests of a subsidiary | – | – | – | – | – | – | – | – | 108 | 108 |
| Total contributions by and distributions to owners of the Company | 346 | (156) | – | 132 | – | – | (8,314) | (7,992) | 4 | (7,988) |
| At 31 December 2011 | 103,446 | (393) | 2,924 | 525 | 870 | (16,256) | 119,852 | 210,968 | 1,393 | 212,361 |

* Before one-for-one bonus share issue in 2011.

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

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

As at 31 December 2012

| | Share capital $'000 | Reserve for own shares $'000 | Capital reserve $'000 | Share option reserve $'000 | Asset revaluation reserve $'000 | Translation reserve $'000 | Retained earnings $'000 | Equity attributable to owners of the Company $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2012 | 103,446 | (393) | 2,924 | 525 | 870 | (16,256) | 119,852 | 210,968 | 1,393 | 212,361 |
| **Total comprehensive income for the year** | | | | | | | | | | |
| Profit/(Loss) for the year | – | – | – | – | – | – | 24,501 | 24,501 | (100) | 24,401 |
| ***Other comprehensive income*** | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | – | – | – | – | – | (20,802) | – | (20,802) | (39) | (20,841) |
| Share of foreign currency transaction differences of associates | – | – | – | – | – | (200) | – | (200) | – | (200) |
| **Total comprehensive income for the year** | – | – | – | – | – | (21,002) | 24,501 | 3,499 | (139) | 3,360 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | | | | |
| ***Contributions by and distributions to owners of the Company*** | | | | | | | | | | |
| Share-based payment transactions | – | – | – | 180 | – | – | – | 180 | – | 180 |
| Final tax-exempt dividend paid of 0.50 cents per share in respect of year 2011 to owners of the Company | – | – | – | – | – | – | (2,077) | (2,077) | – | (2,077) |
| Interim tax-exempt dividend paid of 1.00 cents per share in respect of year 2012 to owners of the Company | – | – | – | – | – | – | (4,155) | (4,155) | – | (4,155) |
| Total contributions by and distributions to owners of the Company | – | – | – | 180 | – | – | (6,232) | (6,052) | – | (6,052) |
| At 31 December 2012 | 103,446 | (393) | 2,924 | 705 | 870 | (37,258) | 138,121 | 208,415 | 1,254 | 209,669 |

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

# Consolidated Statement of Cash Flows

Year ended 31 December 2012

| | Note | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(Loss) before tax | | 23,659 | (5,774) |
| Adjustments for: | | | |
| Depreciation of investment properties | 7 | 73 | 74 |
| Depreciation of property, plant and equipment | 4 | 39,008 | 33,450 |
| Equity-settled share-based payment transactions | 25 | 180 | 223 |
| Fair value (gain)/loss on financial derivatives | 25 | (18,264) | 19,567 |
| Gain on disposal of property, plant and equipment | 25 | (341) | (86) |
| Gain on disposal of other investment | | (841) | – |
| Impairment loss on loan to investee companies | 25 | 2,224 | 1,112 |
| Impairment loss on property, plant and equipment | 4, 25 | – | 3,742 |
| Interest expense | 24 | 5,281 | 3,187 |
| Interest income | 24 | (660) | (793) |
| Inventories write-off | 25 | – | 1,827 |
| Share of profit of associates, net of tax | | (161) | (65) |
| | | 50,158 | 56,464 |
| Change in inventories | | (15,409) | (29,232) |
| Change in trade and other receivables | | (13,534) | 16,462 |
| Change in trade and other payables | | 21,745 | (12,984) |
| Cash generated from operating activities | | 42,960 | 30,710 |
| Income tax paid | | (3,906) | (5,221) |
| **Net cash from operating activities** | | 39,054 | 25,489 |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of a subsidiary, net of cash acquired | | – | (2,615) |
| Acquisition of property, plant and equipment | | (84,080) | (67,874) |
| Acquisition of shares in an associate | | (58) | – |
| Capital injection from non-controlling interests of a subsidiary | | – | 108 |
| Interest received | | 412 | 687 |
| Loans to investee companies | | (1,603) | (1,418) |
| Proceeds from disposal of property, plant and equipment | | 1,082 | 118 |
| Proceeds from disposal of other investment | | 1,166 | – |
| **Net cash used in investing activities** | | (83,081) | (70,994) |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid to non-controlling interests | | – | (104) |
| Dividends paid to owners of the Company | | (6,232) | (8,314) |
| Interest paid | | (5,281) | (3,187) |
| Payment of finance lease liabilities | | – | (737) |
| Proceeds from bank borrowings | | 77,998 | 120,745 |
| Proceeds from exercise of share options | | – | 255 |
| Repayments of bank borrowings | | (56,426) | (45,821) |
| Repurchase of own shares | | – | (156) |
| **Net cash from financing activities** | | 10,059 | 62,681 |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | (33,968) | 17,176 |
| Cash and cash equivalents at 1 January | | 53,669 | 35,731 |
| Effect of exchange rate fluctuations on cash held | | (2,150) | 762 |
| **Cash and cash equivalents at 31 December** | 17 | 17,551 | 53,669 |

**Significant non-cash transaction**

During the financial year, the Company acquired property, plant and equipment of $42.5 million on credit.

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

# Notes to the Financial Statements
Year ended 31 December 2012

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 28 March 2013.

## 1 Domicile and activities

Broadway Industrial Group Limited (the Company) is a company incorporated in Singapore. The address of the Company's registered office is 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623. The Company's principal place of business is 65 Chulia Street, #48-03/04 OCBC Centre, Singapore 049513.

The financial statements of the Company as at and for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities) and the Group's interest in associates.

The principal activity of the Company is that of an investment holding company. The principal activities of significant subsidiaries are those relating to the manufacture of foam plastics and packaging products, expanded polystyrene related products and precision machined components and the sub-assembly of actuator arms.

## 2 Basis of preparation

### 2.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (FRS).

### 2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair value.

### 2.3 Functional and presentation currency

These financial statements are presented in Singapore dollars, which is the Company's functional currency. Other entities within the Group have United States dollars and Chinese Renminbi as functional currencies. All functional information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

### 2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 4 – Estimation of useful lives of property, plant and equipment
- Note 6 – Key assumptions used in discounted cash flow projections
- Note 26 – Measurement of provision for income taxes

### 2.5 Accounting policies for new transactions and events

***Distributions of non-cash assets to owners of the Company***

From 1 January 2012, the Group has applied INT FRS 117 *Distributions of Non-cash Assets to Owners* in accounting for distributions of non-cash assets to owners of the Company. The new accounting policy (see note 3.3) has been applied prospectively.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities, except as explained in note 2.5, which addresses changes in accounting policies.

### 3.1 Basis of consolidation

***Business combinations***

Business combinations are accounted for using the acquisition method in accordance with FRS 103 Business Combination as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

• the fair value of the consideration transferred; plus
• the recognised amount of any non-controlling interests in the acquiree; plus
• if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date and included in the consideration transferred. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. The measurement basis taken is elected on a transaction-by-transaction basis. All other non-controlling interests are measured at acquisition-date fair value or, when applicable, on the basis specified in another standard.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

***Acquisition of non-controlling interests***

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

## 3 Significant accounting policies (cont'd)

### 3.1 Basis of consolidation (cont'd)

***Subsidiaries***

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

***Acquisitions from entities under common control***

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain/loss arising is recognised directly in equity.

***Loss of control***

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

***Investments in associates (equity-accounted investees)***

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies of these entities. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity-accounted investees, after adjustments to align the accounting policies of the equity-accounted investees with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, together with any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to fund the investee's operations or has made payments on behalf of the investee.

***Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

***Subsidiaries and associates in the separate financial statements***

Investments in subsidiaries and associates are stated in the Company's statement of financial position at cost less accumulated impairment losses.

## 3 Significant accounting policies (cont'd)

### 3.2 Foreign currency

***Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income.

***Foreign operations***

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the closing rate. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation. These are recognised in other comprehensive income, and are presented in the translation reserve in equity.

### 3.3 Financial instruments

***Non-derivative financial assets***

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

# Notes to the Financial Statements (cont'd)

Year ended 31 December 2012

## 3 Significant accounting policies (cont'd)

### 3.3 Financial instruments (cont'd)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables, excluding prepayments.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and bank deposits. For the purpose of the consolidated statement of cash flows, pledged deposits are excluded in cash and cash equivalents.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3.9) are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is classified to profit or loss.

Available-for-sale financial assets comprise equity securities.

***Non-derivative financial liabilities***

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. Financial liabilities for contingent consideration payable in a business combination are recognised at the acquisition date. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities for contingent consideration payable in a business combination are initially measured at fair value. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

## 3 Significant accounting policies (cont'd)

### 3.3 Financial instruments (cont'd)

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

***Share capital***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

***Repurchase, disposal and reissue of share capital (treasury shares)***

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own share account. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in non-distributable capital reserve.

***Distribution of non-cash assets to owners of the Company***

The Group measures a liability to distribute non-cash assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting date and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

***Derivative financial instruments, including hedge accounting***

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

***Separable embedded derivatives***

Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

***Intra-group financial guarantees in the separate financial statements***

Financial guarantees are financial instruments issued by the Company that require the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognised initially at fair value and are classified as financial liabilities. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantee is transferred to profit or loss.

## 3 Significant accounting policies (cont'd)

### 3.4 Property, plant and equipment

***Recognition and measurement***

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses except for leasehold land and buildings, which are stated at their revalued amounts. The revalued amount is the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are carried out by independent professional valuers on a triennial basis such that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Any increase in the revaluation amount is credited to the asset revaluation reserve unless it offsets a previous decrease in value of the same asset that was recognised in the income statement. A decrease in value is recognised in the income statement where it exceeds the increase previously recognised in the asset revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the asset revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

***Subsequent costs***

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

***Depreciation***

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Construction-in-progress is not depreciated until it is ready for its intended use.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

## 3 Significant accounting policies (cont'd)

### 3.4 Property, plant and equipment (cont'd)

The estimated useful lives for the current and comparative years are as follows:

| | | |
|---|---|---|
| Buildings on freehold land | - | 20 years |
| Leasehold land | - | 26 to 50 years (period of lease) |
| Leasehold buildings | - | 16 to 47 years |
| Leasehold improvements | - | 1 to 5 years |
| Plant and machinery | - | 2 to 8 years |
| Office equipment and furniture | - | 3 to 5 years |
| Motor vehicles | - | 5 years |

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

### 3.5 Goodwill

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

### 3.6 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment properties. Depreciation on investment properties is recognised in the profit or loss on a straight-line basis over the estimated useful life of 50 years.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

### 3.7 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

### 3.8 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## 3 Significant accounting policies (cont'd)

### 3.9 Impairment

***Non-derivative financial assets***

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

*Loans and receivables*

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

*Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed. The amount of the reversal is recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

## 3 Significant accounting policies (cont'd)

### 3.9 Impairment (cont'd)

*Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

### 3.10 Employee benefits

*Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

*Other long-term employee benefits*

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

## 3 Significant accounting policies (cont'd)

### 3.10 Employee benefits (cont'd)

*Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

*Share-based payment transactions*

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

### 3.11 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

### 3.12 Revenue recognition

*Sale of goods*

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. Transfers of risks and rewards usually occur upon delivery to the customers; however, for sales under Vendor Management Inventory programmes, transfer occurs upon customers' drawn-down of inventories at the third parties' warehouses.

*Rental income*

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

### 3.13 Government grants

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

## 3 Significant accounting policies (cont'd)

### 3.14 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### 3.15 Finance income and finance costs

Finance income comprises interest income on funds invested that is recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

### 3.16 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 3 Significant accounting policies (cont'd)

### 3.16 Tax (cont'd)

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### 3.17 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options and share awards granted to employees.

### 3.18 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Executive Chairman to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Executive Chairman include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, fair value change on financial derivatives, financial derivatives, corporate bank loans and tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

### 3.19 New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group and the Company. The Group does not plan to adopt these amendments early.

## 4. Property, plant and equipment

| Group Cost/Valuation | Freehold land $'000 Cost | Buildings on freehold land $'000 Cost | Leasehold land $'000 Valuation | Leasehold buildings $'000 Valuation | Leasehold improvements $'000 Cost | Plant and machinery $'000 Cost | Office equipment and furniture $'000 Cost | Motor vehicles $'000 Cost | Construction-in-progress $'000 Cost | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2011 | 1,878 | 6,635 | 2,474 | 27,594 | 33,684 | 233,356 | 9,863 | 2,914 | 3,347 | 321,745 |
| Acquisition through a business combination | – | – | 2,800 | 2,688 | 191 | 682 | 35 | 9 | – | 6,405 |
| Additions | – | – | – | – | 4,186 | 19,046 | 1,772 | 337 | 22,176 | 47,517 |
| Disposals | – | – | – | – | (6) | (846) | (66) | (171) | – | (1,089) |
| Reclassifications | – | – | – | – | 690 | 8,311 | 54 | 280 | (9,335) | – |
| Effect of movements in exchange rates | 16 | 57 | 367 | 891 | 659 | 4,639 | 295 | 122 | 601 | 7,647 |
| At 31 December 2011 and 1 January 2012 | 1,894 | 6,692 | 5,641 | 31,173 | 39,404 | 265,188 | 11,953 | 3,491 | 16,789 | 382,225 |
| Additions | – | 806 | – | – | 25,372 | 45,743 | 1,267 | 163 | 50,690 | 124,041 |
| Disposals | – | (881) | – | (22) | (1,318) | (11,984) | (987) | (765) | (751) | (16,708) |
| Reclassifications | – | – | – | – | 1,371 | 10,976 | 571 | – | (12,918) | – |
| Effect of movements in exchange rates | (112) | (393) | (294) | (1,738) | (2,754) | (15,978) | (673) | (154) | (965) | (23,061) |
| At 31 December 2012 | 1,782 | 6,224 | 5,347 | 29,413 | 62,075 | 293,945 | 12,131 | 2,735 | 52,845 | 466,497 |

| Group Cost/Valuation | Freehold land $'000 Cost | Buildings on freehold land $'000 Cost | Leasehold land $'000 Valuation | Leasehold buildings $'000 Valuation | Leasehold improvements $'000 Cost | Plant and machinery $'000 Cost | Office equipment and furniture $'000 Cost | Motor vehicles $'000 Cost | Construction-in-progress $'000 Cost | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2011 | – | 1,321 | 501 | 4,094 | 25,632 | 158,959 | 7,233 | 1,820 | – | 199,560 |
| Depreciation for the year | – | 324 | 101 | 979 | 3,147 | 27,330 | 1,142 | 427 | – | 33,450 |
| Disposals | – | – | – | – | (5) | (830) | (62) | (160) | – | (1,057) |
| Impairment loss | – | 589 | – | – | 734 | 1,664 | 23 | 7 | 725 | 3,742 |
| Reclassifications | – | – | – | – | 441 | (437) | (8) | 4 | – | – |
| Effect of movements in exchange rates | – | 41 | 32 | 285 | 451 | 3,127 | 182 | 61 | 25 | 4,204 |
| At 31 December 2011 and 1 January 2012 | – | 2,275 | 634 | 5,358 | 30,400 | 189,813 | 8,510 | 2,159 | 750 | 239,899 |
| Depreciation for the year | – | 317 | 114 | 1,030 | 6,545 | 29,142 | 1,575 | 285 | – | 39,008 |
| Disposals | – | (881) | – | (22) | (1,318) | (11,267) | (970) | (624) | (719) | (15,801) |
| Reclassifications | – | – | – | – | – | 4 | (7) | 3 | – | – |
| Effect of movements in exchange rates | – | (123) | (32) | (319) | (1,867) | (11,252) | (481) | (90) | (31) | (14,195) |
| At 31 December 2012 | – | 1,588 | 716 | 6,047 | 33,760 | 196,440 | 8,627 | 1,733 | – | 248,911 |
| **Carrying amounts** | | | | | | | | | | |
| At 1 January 2011 | 1,878 | 5,314 | 1,973 | 23,500 | 8,052 | 74,397 | 2,630 | 1,094 | 3,347 | 122,185 |
| At 31 December 2011 and 1 January 2012 | 1,894 | 4,417 | 5,007 | 25,815 | 9,004 | 75,375 | 3,443 | 1,332 | 16,039 | 142,326 |
| At 31 December 2012 | 1,782 | 4,636 | 4,631 | 23,366 | 28,315 | 97,505 | 3,504 | 1,002 | 52,845 | 217,586 |

## 4. Property, plant and equipment (cont'd)

| | Plant and machinery $'000 | Office equipment and furniture $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **Cost** | | | | |
| At 1 January 2011 | – | 153 | 554 | 707 |
| Additions | 136 | 13 | – | 149 |
| At 31 December 2011 and 1 January 2012 | 136 | 166 | 554 | 856 |
| Additions | – | 55 | – | 55 |
| Disposal | – | – | (554) | (554) |
| At 31 December 2012 | 136 | 221 | – | 357 |
| **Accumulated depreciation and impairment losses** | | | | |
| At 1 January 2011 | – | 109 | 351 | 460 |
| Depreciation for the year | 9 | 16 | 111 | 136 |
| At 31 December 2011 and 1 January 2012 | 9 | 125 | 462 | 596 |
| Depreciation for the year | 27 | 30 | – | 57 |
| Disposal | – | – | (462) | (462) |
| At 31 December 2012 | 36 | 155 | – | 191 |
| **Carrying amounts** | | | | |
| At 1 January 2011 | – | 44 | 203 | 247 |
| At 31 December 2011 and 1 January 2012 | 127 | 41 | 92 | 260 |
| At 31 December 2012 | 100 | 66 | – | 166 |

Leasehold land and buildings of the Group were last revalued as at 31 December 2011 by Shanghai Li Gong Xin Real Estate Valuation Co., Ltd, Suzhou Tianyuan Real Estate Valuation and Consultation Co., Ltd, Shenzhen Tianjian Guo Zhong Lian Real Estate Valuation Co., Ltd and Jiangsu Xin Zhong Cheng Assets Evaluation Co., Ltd, firms of independent professional valuers, at open market value on an existing use basis. The revalued amounts of the leasehold land and buildings approximate their carrying amounts as at 31 December 2011.

The carrying amount of leasehold land and buildings of the Group would have been $24,814,000 (2011: $26,649,000) had the leasehold land and buildings been carried at cost less accumulated depreciation and impairment losses.

***Impairment loss***

During 2011, the Group recognised an impairment loss of $3,742,000 in other expenses of the consolidated income statement with respect to its property, plant and equipment due to damages arising from the Thailand floods. The recoverable amount was derived from these property, plant and equipment's fair value less costs to dispose, determined by reference to an active market. In 2012, no impairment loss was recognised.

***Leased assets***

The Group and the Company leased machinery and motor vehicles under a number of finance lease agreements. The leased assets were the security for the lease obligations (see note 19). As at 31 December 2012, the net carrying amounts of property, plant and equipment for the Group and Company under finance leases were $Nil (2011: $92,000) and $Nil (2011: $92,000) respectively.

## 4. Property, plant and equipment (cont'd)

***Security***

The following property, plant and equipment are pledged as security to secure bank loans (see note 19):

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Leasehold land and buildings | 22,040 | 29,366 |

***Estimation of useful lives of property, plant and equipment***

The Group reviews the useful lives of property, plant and equipment at each balance sheet date in accordance with the accounting policy in note 3.4. The estimation of the useful lives involves significant judgement. The net book value of property, plant and equipment at 31 December 2012 was approximately $218 million (2011: $142 million) and the annual depreciation charge for the year ended 31 December 2012 was approximately $39 million (2011: $33.5 million). If the actual useful lives of the property, plant and equipment were longer or shorter than the management's estimate by one year on average, the Group's annual depreciation charge would reduce by $10.7 million (2011: $8.7 million) or increase by $16.5 million (2011: $13.1 million) respectively.

## 5 Goodwill

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| **Cost and carrying amount** | | |
| Goodwill | 57,957 | 70,953 |

Goodwill is allocated to the Group's hard disk drive component ("HDD") business.

## 6 Impairment testing for cash-generating units ("CGUs") containing goodwill and property, plant and equipment

For the purpose of impairment testing, goodwill is allocated to the Group's HDD business.

The aggregate carrying amounts of goodwill allocated and property, plant and equipment attributed to the Group's HDD CGU are as follows:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| **Property, plant and equipment** | 130,164 | 92,009 |
| Goodwill | 57,957 | 70,953 |
| | 188,121 | 162,962 |

The recoverable amount of the CGU was estimated based on its value in use.

The key assumptions for the value in use calculations are discount rate, revenue growth rate and expected changes to selling prices and direct costs during the periods. Management estimates discount rate using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the CGU. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

## 6 Impairment testing for cash-generating units ("CGUs") containing goodwill and property, plant and equipment (cont'd)

Value in use was determined by discounting the future cash flows to be generated from the continuing use of the CGU. Value in use in 2012 was determined in a similar manner as in 2011.

The Group prepares cash flow forecasts for the HDD unit derived from the most recent financial budgets approved by management for the next five years based on an estimated annual growth rate at 4%, giving an estimated average growth rate of 5.4% per annum. The rate used to discount the forecasted cash flows was estimated based on the Group's weighted average cost of capital of 7.5% for 2013 to 2017, which has taken into consideration the current market assessment of the time value of money and the risks specific to the CGU. No terminal value was considered.

The values assigned to the key assumptions represent management's assessment of future trends in the HDD industry and are based on both internal sources (historical data) and external sources including industry forecasts and key customers' long range forecasts. The above estimates are particularly sensitive in the following areas:

- A 1% increase in the discount rate used would have resulted in the HDD unit's carrying amount exceeding its recoverable amount by approximately $4.1 million; and

- A 10% decrease in the future planned revenue would have resulted in the HDD unit's carrying amount exceeding its recoverable amount by approximately $14.4 million.

Management believes that any reasonable change to the above key assumptions will not cause the recoverable value to be lower than the carrying amount of the CGU.

## 7 Investment properties

| | Group | Company |
|---|---|---|
| | $'000 | $'000 |
| **Cost** | | |
| At 1 January 2011 | 3,703 | 2,434 |
| Effect of movements in exchange rates | 11 | – |
| At 31 December 2011 and 1 January 2012 | 3,714 | 2,434 |
| Effect of movements in exchange rates | (76) | – |
| At 31 December 2012 | 3,638 | 2,434 |
| **Accumulated depreciation** | | |
| At 1 January 2011 | 178 | 118 |
| Depreciation for the year | 74 | 48 |
| Effect of movements in exchange rates | 1 | – |
| At 31 December 2011 and 1 January 2012 | 253 | 166 |
| Depreciation for the year | 73 | 49 |
| Effect of movements in exchange rates | (5) | – |
| At 31 December 2012 | 321 | 215 |
| **Carrying amounts** | | |
| At 1 January 2011 | 3,525 | 2,316 |
| At 31 December 2011 and 1 January 2012 | 3,461 | 2,268 |
| At 31 December 2012 | 3,317 | 2,219 |

## 7 Investment properties (cont'd)

At 31 December 2012, the fair values of the Group's and Company's investment properties are $5,300,000 (2011: $5,300,000) and $3,300,000 (2011: $3,300,000) respectively. The fair values are determined by Asian Appraisal Company Pte Ltd, a firm of independent professional valuers. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Investment properties comprise two commercial properties that are leased to third parties. Both leases contain an initial non-cancellable lease period of 3 years. Subsequent renewals are negotiated with the lessee. No contingent rents are charged. See note 30 for further information.

The investment properties are pledged as security to secure bank loans (see note 19).

## 8 Subsidiaries

| | Company | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Equity investments, at cost | 145,002 | 144,002 |
| Allowance for impairment | (4,687) | (1,183) |
| | 140,315 | 142,819 |

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

| | Company | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| At 1 January | 1,183 | 1,183 |
| Impairment loss recognised | 3,504 | – |
| At 31 December | 4,687 | 1,183 |

As at 31 December 2012, one of the Company's subsidiaries – Ningbo Broadway Plastic Packaging Co., Ltd becomes dormant. As a result, the Company recognised an impairment loss of $3,504,000 during 2012 to write down the cost of its investment in the subsidiary to its recoverable amount.

Details of significant subsidiaries are as follows:

| Name of subsidiary | Country of incorporation | Ownership interest | |
|---|---|---|---|
| | | 2012 | 2011 |
| **Held by the Company:** | | % | % |
| Compart Asia Pte Ltd [(a)] | Singapore | 100 | 100 |
| Shanghai Broadway Packaging & Insulation Materials Co., Ltd [(b)] | People's Republic of China | 96.47 | 96.47 |
| Suzhou Broadway Plastic Packaging Co., Ltd [(b)] | People's Republic of China | 100 | 100 |
| Xinjiang Broadway Advanced Materials Co. Ltd [(c)] | People's Republic of China | 60 | 60 |

## 8 Subsidiaries (cont'd)

| Name of subsidiary | Country of incorporation | Ownership interest 2012 % | Ownership interest 2011 % |
|---|---|---|---|
| **Held by the subsidiaries:** | | | |
| ***Held by Shanghai Broadway Packaging & Insulation Materials Co., Ltd:*** | | | |
| Wujiang Weltop Co., Ltd [i] | People's Republic of China | 96.47 | 96.47 |
| ***Held by Compart Asia Pte Ltd:*** | | | |
| Compart Precision (Shenzhen) Co., Ltd [d] | People's Republic of China | 100 | 100 |
| Compart Technologies (Shenzhen) Co., Ltd [d] | People's Republic of China | 100 | 100 |
| Compart Hi-Precision Technologies (Shenzhen) Co., Ltd [d] | People's Republic of China | 100 | 100 |
| Compart Precision Components Manufacturing (Wuxi) Co., Ltd [e] | People's Republic of China | 100 | 100 |
| Compart Engineering, Inc. [f] | United States of America | 100 | 100 |
| Compart Asia Pacific Ltd [g] | Republic of Mauritius | 100 | 100 |
| Compart Precision (Thailand) Co., Ltd [g] | Thailand | 99.99 | 99.99 |
| Compart Hi-Precision Technologies (Suzhou) Co., Ltd [h] | People's Republic of China | 100 | 100 |
| Compart Technologies (Chongqing) Co., Ltd [j] | People's Republic of China | 100 | 100 |
| Compart Technologies (Huizhou) Co., Ltd [k] | People's Republic of China | 100 | 100 |
| Quantum International Limited [f] | Republic of Seychelles | 100 | 100 |

(a) Audited by KPMG LLP, Singapore, Certified Public Accountants.

(b) Audited by Shanghai LSC Certified Public Accountants Co., Ltd., People's Republic of China.
Shanghai Broadway Packaging & Insulation Materials Co., Ltd and Suzhou Broadway Plastic Packaging Co., Ltd are foreign enterprises established in the People's Republic of China on 9 November 1993 and 5 May 1993 respectively for a term of 50 years and 30 years respectively.

(c) The subsidiary is in the process of liquidation as at 31 December 2012.

(d) Audited by Shenzhen Ma Hong, Certified Public Accountants Co., Ltd., People's Republic of China
Compart Precision (Shenzhen) Co., Ltd, Compart Technologies (Shenzhen) Co., Ltd and Compart Hi-Precision Technologies (Shenzhen) Co., Ltd are foreign enterprises established in the People's Republic of China on 29 September 1995, 8 September 2004 and 1 March 2007 respectively for a term of 30 years, 50 years and 50 years respectively.

(e) Audited by Wuxi Zhongzheng, Certified Public Accountants Co., Ltd., People's Republic of China.
Compart Precision Components Manufacturing (Wuxi) Co., Ltd is a foreign enterprise established in the People's Republic of China on 22 July 2005 for a term of 50 years.

(f) There is no statutory requirement to prepare audited financial statements in the country of incorporation.

(g) Audited by other member firms of KPMG International.

(h) Audited by Newgrand Certified Public Accountants.
Compart Hi-Precision Technologies (Suzhou) Co., Ltd is a foreign enterprise established in the People's Republic of China on 1 November 2004 for a term of 50 years.

## 8 Subsidiaries (cont'd)

(i) Audited by Shanghai LSC Certified Public Accountants Co., Ltd, People's Republic of China.

(j) Audited by Chongqing Dahua Certified Public Accountants Co., Ltd, People's Republic of China. Compart Technologies (Chongqing) Co., Ltd is a foreign enterprise established in the People's Republic of China on 1 November 2010 for a term of 50 years.

(k) Audited by Huizhou Heda Certified Public Accountants Co., Ltd, People's Republic of China. Compart Technologies (Huizhou) Co., Ltd is a foreign enterprise established in the People's Republic of China on 28 February 2011 for a term of 50 years.

## 9 Associates

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Investment in associates | 1,198 | 1,179 | 2,198 | 2,198 |
| Allowance for impairment | – | – | (2,100) | (2,100) |
| | 1,198 | 1,179 | 98 | 98 |

Details of the associates are as follows:

| **Name of associate** | **Country of incorporation** | **Ownership interest 2012 %** | **Ownership interest 2011 %** |
|---|---|---|---|
| **Held by the Company:** | | | |
| Toho Foam (Thailand) Company Limited ^ | Thailand | 24.22 | 24.22 |
| **Held by subsidiaries:** | | | |
| ***Held by Suzhou Broadway Plastic Packaging Co., Ltd:*** | | | |
| Styrostone Broadway Green Building System (Shanghai) Co., Ltd * | People's Republic of China | 40 | 40 |
| ***Held by Shanghai Broadway Packaging & Insulation Materials Co., Ltd:*** | | | |
| Shanghai Kiddy Children's Products Co., Ltd # | People's Republic of China | 38.59 | 38.59 |
| ***Held by Wujiang Weltop Co., Ltd:*** | | | |
| Wujiang Dairyu Broadway Plastic Packaging Co., Ltd # | People's Republic of China | 47.27 | – |
| ***Held by Broadway Packaging (HK) Co., Ltd:*** | | | |
| Broadway Rompa (Hong Kong) Limited @ | Hong Kong | 50 | – |

^ Audited by Briskal CPA Co., Ltd, Thailand.
* Audited by Shanghai Qiu Xin CPAs Co., Ltd, People's Republic of China.
# Audited by Shanghai LSC Certified Public Accountants Co., Ltd., People's Republic of China
@ Audited by Mazars Assurance & Business Advisory, Hong Kong

The summarised financial information of the associates is not disclosed as the amounts are not significant.

## 10 Loans to subsidiaries

| | Company | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Loans to subsidiaries | 2,251 | 3,253 |
| Allowance for impairment | (1,971) | (1,971) |
| | 280 | 1,282 |

The movement in the allowance for impairment in respect of loans to subsidiaries during the year was as follows:

| | Company | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| At 1 January | 1,971 | 1,971 |
| Impairment loss recognised | – | – |
| At 31 December | 1,971 | 1,971 |

The loans to subsidiaries have no fixed repayment terms and form part of the Company's net investment in the subsidiaries. The loans are unsecured and interest-free, and settlement is neither planned nor likely to occur in the foreseeable future. As the amounts are in substance a part of the Company's net investment in the entities, they are stated at cost less accumulated impairment loss.

## 11 Loans to investee companies

| | Group and Company | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Loans to investee companies | 4,067 | 2,414 |
| Allowance for impairment | (3,336) | (1,112) |
| | 731 | 1,302 |

The loans to investee companies are unsecured, bear interest at 5% to 8% annually, and are repayable by 31 December 2014.

The movement in the allowance for impairment in respect of loans to investee companies during the year was as follows:

| | Group and Company | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| At 1 January | 1,112 | – |
| Impairment loss recognised | 2,224 | 1,112 |
| At 31 December | 3,336 | 1,112 |

The Group's exposure to credit and currency risks related to loans to investee companies is disclosed in note 22.

## 12 Other investments

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Available-for-sale unquoted equity securities | 910 | 1,471 | 805 | 1,366 |
| Allowance for impairment | – | (236) | – | (236) |
| | 910 | 1,235 | 805 | 1,130 |
| Transferable club memberships, at cost | 114 | 114 | 47 | 47 |
| | 1,024 | 1,349 | 852 | 1,177 |

The Group's exposure to credit risk and fair value information related to other investments are disclosed in note 22.

## 13 Financial derivatives

| | Fair value | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| **Non-hedging instruments** | | | | |
| ***Non-current*** | | | | |
| Currency forwards and options | – | 907 | 290 | 9,095 |
| ***Current*** | | | | |
| Currency forwards and options | 363 | 5,498 | 98 | 16,383 |
| | 363 | 6,405 | 388 | 25,478 |

## 14 Deferred tax assets and liabilities

***Unrecognised deferred tax assets***

Deferred tax assets have not been recognised in respect of tax losses for certain subsidiaries amounting to approximately $30,594,000 (2011: $40,183,000), of which $28,551,000 (2011: $38,140,000) will expire between 2013 and 2032 (2011: 2012 and 2031) as follows:

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Within one year | 10,349 | 94 |
| Between one and three years | 2,302 | 17,268 |
| Between three and five years | – | 4,177 |
| More than five years | 15,900 | 16,601 |
| | 28,551 | 38,140 |

## 14 Deferred tax assets and liabilities (cont'd)

The remaining tax losses do not expire under current tax legislation. These tax losses are subject to agreement by the tax authorities and compliance with tax regulations in the respective countries in which certain subsidiaries operate. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available in the relevant entities against which the Group can utilise the benefits therefrom.

***Recognised deferred tax assets and liabilities***

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | |
| Property, plant and equipment | 12,325 | 7,980 | (272) | (295) |

***Movement in temporary differences during the year***

| | At 1 January 2011 $'000 | Recognised in profit or loss (note 26) $'000 | Exchange differences $'000 | At 31 December 2011 $'000 | Recognised in profit or loss (note 26) $'000 | Exchange differences $'000 | At 31 December 2012 $'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Property, plant and equipment | 6,429 | 1,171 | 85 | 7,685 | 4,873 | (505) | 12,053 |

## 15 Inventories

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Raw materials | 22,569 | 25,111 |
| Work-in-progress | 22,171 | 22,779 |
| Finished goods | 41,285 | 28,859 |
| Spare parts and others | 7,070 | 6,025 |
| | 93,095 | 82,774 |

In 2012, raw materials, spare parts and others and changes in work-in-progress and finished goods recognised as cost of sales amounted to $564,985,000 (2011: $481,971,000).

In 2012, the write-back of inventories by the Group amounted to $1,000,000. In 2011, the write-down of inventories to net realisable value by the Group amounted to $171,000. The write-back and write-down were included in cost of sales.

## 16 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables | 98,160 | 94,773 | – | – |
| Deposits | 6,698 | 2,034 | 50 | 64 |
| Amounts due from subsidiaries (non-trade) | – | – | 3,504 | 3,565 |
| Amounts due from an associate | | | | |
| - trade | 984 | 639 | – | – |
| - non-trade | 3 | 252 | – | – |
| - loan | 693 | 1,126 | – | – |
| Other receivables | 13,502 | 11,500 | 465 | 314 |
| Loans and receivables | 120,040 | 110,324 | 4,019 | 3,943 |
| Prepayments | 7,285 | 10,255 | 24 | 30 |
| | 127,325 | 120,579 | 4,043 | 3,973 |

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. There is no allowance for doubtful debts arising from the outstanding balances.

The non-trade amounts due from an associate are unsecured, interest-free and repayable on demand, except for the loan to an associate which bears interest at 8% per annum.

The Group's and the Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 22.

## 17 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Cash at bank and in hand | 13,873 | 36,000 | 281 | 49 |
| Fixed deposits with financial institutions | 3,683 | 17,674 | 5 | 5 |
| Cash and cash equivalents in the statement of financial position | 17,556 | 53,674 | 286 | 54 |
| Fixed deposits pledged | (5) | (5) | | |
| Cash and cash equivalents in the consolidated statement of cash flows | 17,551 | 53,669 | | |

The weighted average effective interest rates per annum relating to cash and cash equivalents, at the balance sheet date for the Group and Company are 1.49% (2011: 0.05%) and 0.0001% (2011: 0.0008%) respectively.

Fixed deposits with financial institutions have an average maturity of 12 months (2011: 4 months) from the end of the financial year.

Fixed deposits pledged represent bank balances of certain subsidiaries pledged as security to obtain credit facilities.

## 17 Cash and cash equivalents (cont'd)

The use of certain subsidiaries' cash and cash equivalent of $3,678,000 (2011: $17,663,000) is restricted to working capital purposes in accordance with the terms stipulated in the fixed deposits agreements entered by the subsidiaries with the bankers.

## 18 Capital and reserves

| | Group and Company | |
|---|---|---|
| | No. of shares | No. of shares |
| | 2012 | 2011 |
| ***Share capital*** | '000 | '000 |
| Ordinary shares | | |
| On issue at 1 January | 416,442 | 207,906 |
| Exercise of share options | – | 315 |
| Bonus issue | – | 208,221 |
| On issue at 31 December | 416,442 | 416,442 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group, all rights are suspended until those shares are reissued. All shares rank equally with regard to the Company's residual assets.

All issued shares are fully paid, with no par value.

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| ***Reserves*** | | | | |
| Reserve for own shares | (393) | (393) | (393) | (393) |
| Capital reserve | 2,924 | 2,924 | – | – |
| Share option reserve | 705 | 525 | 705 | 525 |
| Asset revaluation reserve | 870 | 870 | – | – |
| Translation reserve | (37,258) | (16,256) | – | – |
| | (33,152) | (12,330) | 312 | 132 |

*Reserve for own shares*

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At 31 December 2012, the Group held 956,000 (2011: 956,000) of the Company's shares.

*Capital reserve*

Capital reserve mainly arises from the restructuring of the Compart Group in 2004.

*Share option reserve*

The share option reserve comprises the cumulative value of employee services received for the issue of share options. When options are exercised, the cumulative amount in the share option reserve which relates to the valuable consideration received in the form of employee services is transferred to share capital.

## 18 Capital and reserves (cont'd)

*Asset revaluation reserve*

The asset revaluation reserve relates to the revaluation of leasehold land and buildings.

*Translation reserve*

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the functional currency of the Company.

*Retained earnings*

The retained earnings of the Group include an accumulated loss amounting to $904,000 (2011: $1,065,000) attributable to associates.

Included in the Group's retained earnings is an amount of $12,854,000 (2011: $12,018,000) relating to statutory surplus reserve and $431,000 (2011: $431,000) relating to legal reserve.

According to the relevant People's Republic of China ("PRC") regulations, the subsidiaries in the PRC are required to transfer 10% of profit after taxation, as determined under Generally Accepted Accounting Principles of the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the entity's registered capital. The transfer to this reserve must be made before the distribution of dividends to equity owners. The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-in capital in proportion to the existing interests of equity owners.

According to Thailand's Civil and Commercial Code, the subsidiary in Thailand is required to allocate not less than 5% of its net profit to the legal reserve upon each dividend distribution, until the reserve balance reaches an amount not less than 10% of the subsidiary's registered share capital.

***Dividends***

After the respective reporting dates, the following exempt (one-tier) dividends were proposed by the Directors. These dividends have not been provided for.

| | Group and Company | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| NIL cents (2011: 0.50 cents*) per qualifying ordinary share | – | 2,077 |

* After adjustment for one-for-one bonus share issue in 2011.

## 19 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's and the Company's exposure to interest rate, foreign currency and liquidity risk, see note 22.

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| **Non-current liabilities** | | | | |
| Secured bank loans | 63,265 | 75,060 | 1,420 | – |
| Finance lease liabilities | – | 105 | – | 105 |
| | 63,265 | 75,165 | 1,420 | 105 |
| **Current liabilities** | | | | |
| Secured bank loans | 77,900 | 55,091 | 160 | – |
| Unsecured bank loans | 8,667 | 6,170 | 2,000 | 2,000 |
| Finance lease liabilities | – | 57 | – | 57 |
| | 86,567 | 61,318 | 2,160 | 2,057 |
| | 149,832 | 136,483 | 3,580 | 2,162 |

***Terms and debt repayment schedule***

Terms and conditions of outstanding loans and borrowings are as follows:

| | | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| | Nominal interest rate | Year of maturity | Face value $'000 | Carrying amount $'000 | Face value $'000 | Carrying amount $'000 |
| **Group** | | | | | | |
| Secured bank loans (SGD) | 2.08% | 2017 | 2,535 | 2,535 | – | – |
| Secured bank loans (RMB) | 6.44% - 7.86% | 2013 | 4,853 | 4,853 | 10,679 | 10,679 |
| Secured bank loans (USD) | 1.91% - 4.60% | 2013 – 2017 | 122,277 | 122,277 | 113,574 | 113,574 |
| Secured bank loans (THB) | 3.78% - 4.38% | 2013 | 11,500 | 11,500 | 5,898 | 5,898 |
| Unsecured bank loans (SGD) | 2.82% | 2013 | 2,000 | 2,000 | 2,000 | 2,000 |
| Unsecured bank loans (RMB) | 5.30% - 5.60% | 2013 | 3,960 | 3,960 | 4,170 | 4,170 |
| Unsecured bank loans (USD) | 3.11% - 3.16% | 2013 | 2,707 | 2,707 | – | – |
| Finance lease liabilities | – | – | – | – | 162 | 162 |
| | | | 149,832 | 149,832 | 136,483 | 136,483 |

| | | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| | Nominal interest rate | Year of maturity | Face value $'000 | Carrying amount $'000 | Face value $'000 | Carrying amount $'000 |
| **Company** | | | | | | |
| Bank loans | 2.08% - 2.82% | 2013 - 2017 | 3,580 | 3,580 | 2,000 | 2,000 |
| Finance lease liabilities | – | – | – | - | 162 | 162 |
| | | | 3,580 | 3,580 | 2,162 | 2,162 |

## 19 Loans and borrowings (cont'd)

Secured bank loans of the Group amounting to $141,165,000 (2011: $130,151,000) are secured by legal charges over the Group's leasehold land and buildings with a carrying amount of $22,040,000 (2011: $29,366,000) (see note 4), investment properties with a carrying amount of $3,317,000 (2011: $3,461,000) (see note 7) and guarantees issued by certain subsidiaries.

Finance lease liabilities are payable as follows:

| | Future minimum lease payments 2012 $'000 | Interest 2012 $'000 | Principal 2012 $'000 | Future minimum lease payments 2011 $'000 | Interest 2011 $'000 | Principal 2011 $'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Within one year | – | – | – | 67 | 10 | 57 |
| Between one and five years | – | – | – | 129 | 24 | 105 |
| | – | – | – | 196 | 34 | 162 |
| Company | | | | | | |
| Within one year | – | – | – | 67 | 10 | 57 |
| Between one and five years | – | – | – | 129 | 24 | 105 |
| | – | – | – | 196 | 34 | 162 |

***Intra-group financial guarantees***

As at 31 December 2012, intra-group financial guarantees comprise corporate guarantees granted by the Company to banks in respect of banking facilities amounting to $185,384,000 (2011: $184,297,000) used by its subsidiaries. The corporate guarantees are valid as long as the banking facilities are provided to the subsidiaries. At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the guarantees.

## 20 Share-based payment arrangements

**Description of the share-based payment arrangements**

At 31 December 2012, the Group has the following share-based payment arrangements:

***Share option programme (equity-settled)***

The BIGL Share Option Scheme 2001 (the Scheme) of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 8 November 2001. In accordance with the programme, market price options are exercisable at the average market price of the shares three days preceding the date of grant and incentive options are exercisable at a discount not exceeding 20% of the market price at the time of grant. The Scheme expired on 7 November 2011.

*Terms and conditions of share option programme*

The terms and conditions relating to the grants of the share option programme are as tabled below. All options are to be settled by physical delivery of shares.

## 20 Share-based payment arrangements (cont'd)

***Share option programme (equity-settled) (cont'd)***

| Grant date | Number of instruments | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Option grant to non-executive Directors on 26 March 2008 | 200,000 | 1 year's service | 5 years |
| Option grant to employees on 6 March 2009 | 16,000 | 1 year's service | 10 years |
| Option grant to employees on 2 June 2009 | 200,000 | 2 year's service | 10 years |
| Option grant to employees on 3 March 2010 | 1,030,000 | 1 years' service | 10 years |
| Option grant to non-executive Directors on 3 March 2010 | 200,000 | 1 year's service | 5 years |
| Option grant to employees on 11 May 2010 | 230,000 | 1 year's service | 10 years |
| Option grant to non-executive Directors on 4 March 2011 | 200,000 | 1 year's service | 5 years |
| Option grant to employees on 10 May 2011 | 200,000 | 1 year's service | 10 years |
| Total share options | 2,276,000 | | |

***Disclosure of share option programme***

The number and weighted average exercise prices of share options are as follows:

| | Weighted average exercise price 2012 $ | Number of options 2012 | Weighted average exercise price 2011 $ | Number of options 2011 |
|---|---|---|---|---|
| Outstanding at 1 January | 0.43 | 2,466,000 | 0.83 | 1,383,000 |
| Granted during the year | – | – | 1.00 | 200,000 |
| Bonus issue during the year | – | – | – | 1,248,000 |
| Exercised during the year | – | – | 0.81 | (315,000) |
| Forfeited during the year | 0.45 | (190,000) | 0.63 | (50,000) |
| Outstanding at 31 December | 0.43 | 2,276,000 | 0.43 | 2,466,000 |
| Exercisable at 31 December | 0.43 | 2,276,000 | 0.42 | 2,066,000 |

The options outstanding at 31 December 2012 have an exercise price in the range of $0.07 to $0.565 (2011: $0.07 to $0.565) and a weighted average contractual life of 9 years (2011: 9 years).

The weighted average share price at the date of exercise of share options exercised in 2011 was $0.525. No options were exercised in 2012.

## 20 Share-based payment arrangements (cont'd)

*Inputs for measurement of grant date fair values*

The grant date fair value of the share-based payment plan was measured based on the Trinomial Option Pricing model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plan are as follows:

| | 26 March 2008 | 06 March 2009 | 02 June 2009 | 03 March 2010 | 11 May 2010 | 04 March 2011 | 10 May 2011 |
|---|---|---|---|---|---|---|---|
| **Fair value of share options and assumptions** | | | | | | | |
| Fair value at grant date | $0.23 | $0.08 | $0.25 | $0.29 | $0.44 | $0.19 | $0.19 |
| Share price at grant date | $0.67 | $0.15 | $0.35 | $0.86 | $1.13 | $0.99 | $1.01 |
| Exercise price* | $0.66 | $0.14 | $0.28 | $0.90 | $1.13 | $1.00 | $1.02 |
| Expected volatility (weighted average volatility) | 46% | 113% | 126% | 54% | 57% | 31% | 29% |
| Option life (expected weighted average life) | 5 years | 5 years | 5 years | 5 years | 5 years | 5 years | 5 years |
| Expected dividends | 3% | 3% | 3% | 3% | 3% | 4% | 4% |
| Risk-free interest rate (based on government bonds) | 1.50% | 1.05% | 1.35% | 1.30% | 1.05% | 1.14% | 1.10% |

* *Not adjusted for one-for-one bonus share issue.*

***Share Plan***

The BIGL Share Plan (the Plan) of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 28 July 2010. The Plan is administered by the Remuneration Committee, comprising three Directors, Eu Yee Ming Richard, Lee Chow Soon and Lew Syn Pau.

The Plan is intended to reward, retain and motivate employees to higher standards of performance and encourage greater dedication and loyalty by enabling the Company to give recognition to outstanding employees of the Group and/or associated companies.

Awards will be released to participants as fully paid shares upon expiry of the prescribed vesting periods or retention periods and subject to conditions prescribed in the Plan.

Employees of the Group and/or associated companies shall be eligible to participate in the Plan subject to the absolute discretion of the Remuneration Committee. Non-executive Directors of the Group and associated companies, controlling shareholders and their associates will not be eligible to participate in the Plan.

910,000 share awards were granted conditionally under the Plan during 2012 (2011: 1,054,000). The actual number of shares awarded will depend on the achievement of set targets over a four-year period. This will be determined by the Remuneration Committee at the end of the qualifying performance period and released to the recipient over a four-year vesting period in the ratio of 0%, 25%, 25% and 50% consecutively.

## 20 Share-based payment arrangements (cont'd)

The details of the awards granted under the Plan are as follows:

| Date of grant of share awards | Share awards granted and not released as at 1 January 2012 | Share awards granted during the financial year ended 31 December 2012 | Share awards forfeited | Share awards granted and not released as at 31 December 2012 |
|---|---|---|---|---|
| 04 March 2011 | 1,028,000 | – | (150,000) | 878,000 |
| 04 April 2012 | – | 165,000 | (50,000) | 115,000 |
| 04 May 2012 | – | 310,000 | – | 310,000 |
| 04 June 2012 | – | 405,000 | (35,000) | 370,000 |
| 18 July 2012 | – | 30,000 | – | 30,000 |
| | 1,028,000 | 910,000 | (235,000) | 1,703,000 |

*Inputs for measurement of grant date fair values*

The grant date fair value of the share plan was measured based on the Trinomial Option Pricing model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share plan are as follows:

| | 4 March 2011 | 4 April 2012 | 4 May 2012 | 4 Jun 2012 | 18 July 2012 |
|---|---|---|---|---|---|
| **Fair value of share awards and assumptions** | | | | | |
| Fair value at grant date | $0.421 | $0.445 | $0.415 | $0.330 | $0.350 |
| Share price at grant date | $0.493 | $0.445 | $0.415 | $0.330 | $0.350 |
| Expected volatility (weighted average volatility) | 31.40% | 68.20% | 69.21% | 70.44% | 59.48% |
| Share award life (expected weighted average life) | 4 years | 4 years | 4 years | 4 years | 4 years |
| Expected dividends | 4.060% | 1.124% | 1.205% | 1.515% | 1.429% |
| Risk-free interest rate (based on government bonds) | 0.70% | 0.65% | 0.65% | 0.65% | 0.65% |

The aggregate number of shares available under the Scheme, the Plan and any other applicable share-based schemes shall not exceed 15% of the Company's total issued shares (excluding treasury shares).

The weighted average share price at the date of grant of share awards granted in 2012 was $0.360 (2011: $0.415).

**Employee expenses**

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Equity-settled share-based payment: | | |
| Share options | 10 | 96 |
| Share awards | 170 | 127 |
| | 180 | 223 |

## 21 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade payables | 80,657 | 68,440 | – | – |
| Fees payable to Directors of the Company | 264 | 148 | 264 | 148 |
| Other payables | 15,100 | 9,680 | 634 | 321 |
| Amount due to a subsidiary (non-trade) | – | – | 3,456 | 354 |
| Payables for purchase of property, plant and equipment | 42,514 | 2,858 | – | – |
| Accrued expenses | 20,412 | 22,286 | 1,595 | 1,671 |
| | 158,947 | 103,412 | 5,949 | 2,494 |
| Current | 125,262 | 103,412 | 5,949 | 2,494 |
| Non-current | 33,685 | – | – | – |
| | 158,947 | 103,412 | 5,949 | 2,494 |

The trade and other payables (non-current) of $33,685,000 (2011: $Nil) relate to equipment acquired from a vendor repayable in 2014.

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

The Group's and the Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

## 22 Financial instruments

**Overview**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

## 22 Financial instruments (cont'd)

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The carrying amount of financial assets in the statement of financial position represents the Group's and the Company's respective maximum exposure to credit risk, before taking into account any collateral held. The Group and the Company do not hold any collateral in respect of its financial assets.

***Guarantees***

The Group's policy is to provide financial guarantees only to subsidiaries.

Except for the intra-group financial guarantees given by the Company as set out in note 19, the Group and the Company do not provide any guarantees which would expose the Group or the Company to credit risk. The maximum exposure of the Company in respect of the intra-group financial guarantee at the end of the reporting period is, if the facilities are drawn down by the subsidiaries, in the amount of $185,384,000 (2011: $184,297,000).

***Trade and other receivables***

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The Group's business is highly reliant on a few major customers and their affiliated companies. Sales to these customers account for a majority of the Group's total revenue. Approximately 66% (2011: 65%) of the Group's revenue is attributable to sale transactions with three major customers.

The Group has policies in place to ensure sales of products are made to customers with an appropriate credit history and monitors their balances on an ongoing basis. The Group does not require collateral in respect of trade and other receivables.

## 22 Financial instruments (cont'd)

*Exposure to credit risk*

The maximum exposure to credit risk for trade and other receivables (excluding prepayments) at the reporting date by type of counterparty was:

| | Group Carrying amount | | Company Carrying amount | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Foam plastics | 66,756 | 54,290 | – | – |
| Components* | 52,770 | 55,655 | – | – |
| Others | 514 | 379 | 4,019 | 3,943 |
| | 120,040 | 110,324 | 4,019 | 3,943 |

* Components comprise Hard disk drive and Non-Hard disk drive.

The Group's three most significant customers, components manufacturers, account for $30,925,000 (2011: $40,572,000) of the consolidated trade and other receivables balance (excluding prepayments) at 31 December 2012.

*Impairment losses*

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The ageing of trade and other receivables (excluding prepayments) that were not impaired at the reporting date was:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Not past due | 100,757 | 90,805 | 1,397 | 1,566 |
| Past due 1 – 30 days | 7,018 | 10,846 | – | – |
| Past due 31 – 120 days | 6,613 | 4,504 | – | – |
| More than 120 days | 5,652 | 4,169 | 2,622 | 2,377 |
| | 120,040 | 110,324 | 4,019 | 3,943 |

## 22 Financial instruments (cont'd)

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| At 1 January | 718 | 600 |
| Impairment loss recognised | 64 | 183 |
| Impairment loss written off | (404) | (65) |
| At 31 December | 378 | 718 |

The Group and the Company believes that the unimpaired amounts that are past due are still collectible, based on historic payment behaviour.

Based on the Group's monitoring of customer credit risk, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due.

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point, the amounts are considered irrecoverable and are written off against the financial asset directly. At 31 December 2012, the Group and the Company does not have any collective impairment on its loans and receivables (2011: $Nil).

***Cash and cash equivalents***

The Group held cash and cash equivalents of $17,556,000 at 31 December 2012 (2011: $53,674,000), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated Aa1 to Baa3, based on Moody's ratings.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

As at 31 December 2012, the Group maintains $49.1 million (2011: $95.8 million) of uncommitted credit facilities that can be drawn down to meet short-term financing needs.

The Group has contractual commitments to purchase property, plant and equipment (see note 31).

## 22 Financial instruments (cont'd)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| | | Cash flows | | | |
|---|---|---|---|---|---|
| | Carrying amount $'000 | Contractual cash flows $'000 | Within 1 year $'000 | Between 1 to 5 years $'000 | More than 5 years $'000 |
| **Group** | | | | | |
| **2012** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Variable interest rate loans | 93,686 | (97,623) | (31,604) | (66,019) | – |
| Fixed interest rate loans | 56,146 | (56,615) | (56,615) | – | – |
| Trade and other payables | 158,947 | (158,947) | (125,262) | (33,685) | – |
| | 308,779 | (313,185) | (213,481) | (99,704) | – |
| **Derivative financial liabilities** | | | | | |
| Forward exchange contracts: | | | | | |
| - Outflow | 388 | (388) | (98) | (290) | – |
| - Inflow | (363) | 363 | 363 | – | – |
| | 25 | (25) | 265 | (290) | – |
| | 308,804 | (313,210) | (213,216) | (99,994) | – |
| **Group** | | | | | |
| **2011** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Variable interest rate loans | 102,011 | (103,590) | (27,387) | (76,203) | – |
| Fixed interest rate loans | 34,310 | (34,798) | (34,798) | – | – |
| Finance lease liabilities | 162 | (196) | (67) | (129) | – |
| Trade and other payables | 103,412 | (103,412) | (103,412) | – | – |
| | 239,895 | (241,996) | (165,664) | (76,332) | – |
| **Derivative financial liabilities** | | | | | |
| Forward exchange contracts: | | | | | |
| - Outflow | 25,478 | (25,478) | (16,383) | (9,095) | – |
| - Inflow | (6,405) | 6,405 | 5,498 | 907 | – |
| | 19,073 | (19,073) | (10,885) | (8,188) | – |
| | 258,968 | (261,069) | (176,549) | (84,520) | – |
| **Company** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| **2012** | | | | | |
| Variable interest rate loans | 1,580 | (1,689) | (192) | (373) | (1,124) |
| Fixed interest rate loans | 2,000 | (2,005) | (2,005) | – | – |
| Trade and other payables | 5,949 | (5,949) | (5,949) | – | – |
| | 9,529 | (9,643) | (8,146) | (373) | (1,124) |
| **2011** | | | | | |
| Fixed interest rate loans | 2,000 | (2,019) | (2,019) | – | – |
| Finance lease liabilities | 162 | (196) | (67) | (129) | – |
| Trade and other payables | 2,494 | (2,494) | (2,494) | – | – |
| | 4,656 | (4,709) | (4,580) | (129) | – |

## 22 Financial instruments (cont'd)

The maturity analyses show the undiscounted cash flows of the Group's and the Company's financial liabilities on the basis of their earliest possible contractual maturity.

For derivative financial instruments, the cash inflows/(outflows) represent the contractual undiscounted cash flows relating to these instruments. The amounts are compiled on a net basis for derivatives that are net-settled. Gross inflows and outflows are included for derivatives that are gross-settled on a simultaneous basis. Net-settled derivative financial assets are included in the maturity analyses as they are held to manage the cash flow variability.

It is not expected that the cash flows included in the maturity analysis of the Group and the Company could occur significantly earlier, or at significantly different amounts.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines approved by the Board of Directors.

***Currency risk***

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Singapore dollar, United States dollar (US dollar) and Chinese Renminbi. The currencies in which these transactions primarily are denominated are Singapore dollar, US dollar, Chinese Renminbi and Thai Baht.

The Group uses forward exchange contracts to manage its currency risk, with a maximum tenor of 24 months.

Interest on borrowings is denominated in the currency of the borrowing. Generally borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily US dollar and Chinese Renminbi. This provides and economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

*Exposure to currency risk*

The summary of quantitative data about the Group's exposure to foreign currency risk as provided to the management of the Group based on its risk management policy was as follows:

| | Singapore dollar | US dollar | Chinese Renminbi | Thai Baht |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | |
| **31 December 2012** | | | | |
| Loans to investee companies | – | 731 | – | – |
| Trade and other receivables | – | 30,062 | 11,869 | 20,731 |
| Cash and cash equivalents | 172 | 3,838 | 1,298 | 52 |
| Loans and borrowings | (955) | (21,997) | (2,478) | (11,500) |
| Trade and other payables | (45) | (10,605) | (36,477) | (22,645) |
| Net statement of financial position exposure | (828) | 2,029 | (25,788) | (13,362) |
| Forward exchange contracts | (7) | – | (43) | – |
| Net exposure | (835) | 2,029 | (25,831) | (13,362) |

## 22 Financial instruments (cont'd)

| | Singapore dollar $'000 | US dollar $'000 | Chinese Renminbi $'000 | Thai Baht $'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **31 December 2011** | | | | |
| Loans to investee companies | – | 1,302 | – | – |
| Trade and other receivables | – | 20,754 | 13,782 | 600 |
| Cash and cash equivalents | 1,677 | 6,642 | 9,436 | 861 |
| Loans and borrowings | – | (26,275) | (5,258) | (5,898) |
| Trade and other payables | (85) | (6,030) | (31,238) | (4,012) |
| Net statement of financial position exposure | 1,592 | (3,607) | (13,278) | (8,449) |
| Forward exchange contracts | (10,939) | – | (8,134) | – |
| Net exposure | (9,347) | (3,607) | (21,412) | (8,449) |
| **Company** | | | | |
| **31 December 2012** | | | | |
| Loan to investee companies | – | 731 | – | – |
| **31 December 2011** | | | | |
| Loan to investee companies | – | 1,302 | – | – |

*Sensitivity analysis*

A 10% strengthening of the functional currencies of the Company and its subsidiaries against the Singapore dollar, US dollar, Chinese Renminbi and Thai Baht at 31 December would have increased/(decreased) profit before tax (2011: decreased/(increased) loss before tax) by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011, as indicated below:

| | Group Profit before tax $'000 | Company Profit before tax $'000 |
|---|---|---|
| **31 December 2012** | | |
| Singapore dollar | 83 | – |
| US dollar | (203) | (73) |
| Chinese Renminbi | 2,583 | – |
| Thai Baht | 1,336 | – |
| **31 December 2011** | | |
| Singapore dollar | 935 | – |
| US dollar | 361 | (130) |
| Chinese Renminbi | 2,141 | – |
| Thai Baht | 845 | – |

## 22 Financial instruments (cont'd)

A 10% weakening of the functional currencies of the Company and its subsidiaries against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

***Interest rate risk***

The Group adopts a policy of ensuring that between 20% and 60% of its exposure to changes in interest rates on borrowings is on a fixed-rate basis, taking into account assets with exposure to changes in interest rates.

*Profile*

At the reporting date, the interest rate profile of the interest-bearing financial instruments was:

| | Group | | Company | |
|---|---|---|---|---|
| | Carrying amount | | Carrying amount | |
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Fixed rate instruments | | | | |
| Financial assets | 4,413 | 18,976 | 736 | 1,307 |
| Financial liabilities | (56,146) | (34,472) | (2,000) | (2,162) |
| | (51,733) | (15,496) | (1,264) | (855) |
| Variable rate instruments | | | | |
| Financial assets | 13,874 | 36,000 | 281 | 49 |
| Financial liabilities | (93,686) | (102,011) | (1,580) | – |
| | (79,812) | (66,011) | (1,299) | 49 |

*Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

*Cash flow sensitivity analysis for variable rate instrument*

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit before tax (2011: decreased/(increased) loss before tax) by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

| | Profit before tax | |
|---|---|---|
| | 100 bp increase | 100 bp decrease |
| **Group** | $'000 | $'000 |
| **31 December 2012** | | |
| Variable rate instruments | (798) | 798 |
| **31 December 2011** | | |
| Variable rate instruments | (660) | 660 |
| **Company** | | |
| **31 December 2012** | | |
| Variable rate instruments | (13) | 13 |
| **31 December 2012** | | |
| Variable rate instruments | – | – |

## 22 Financial instruments (cont'd)

### Capital management

The Board's policy is to maintain a sound capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, reserves, retained earnings and non-controlling interests of the Group. The Board of Directors monitors the average return on capital, which the Group defines as net operating income divided by total average shareholders' equity excluding non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company has a mandate to issue shares to employees of the Group of up to 15% of the Company's ordinary shares (excluding treasury shares held). At present, employees hold 1.7% of ordinary shares, or just under 2.6% assuming that all outstanding share options and share awards vest and/or are exercised.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. In 2012, the return on average shareholders' equity was 11.7% (2011: -3.3%). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 3.13% (2011: 3.17%).

The Group's net debt to equity ratio at the balance sheet date was as follows:

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Total liabilities | 322,808 | 279,621 |
| Less: Cash and cash equivalents | (17,556) | (53,674) |
| Net debt | 305,252 | 225,947 |
| Total equity | 209,669 | 212,361 |
| Net debt to equity ratio at 31 December | 1.46 | 1.06 |

From time to time, the Group purchases its own shares on the market; the timing of these purchases depends on market prices. The shares are primarily intended to be used for issuing shares under the Group's share option and share award programme.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements, other than as disclosed in note 18.

## 22 Financial instruments (cont'd)

### Accounting classifications and fair values

***Fair values versus carrying amounts***

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| Group | Note | Loans and receivables $'000 | Available for-sale $'000 | Fair value –hedging instruments $'000 | Other financial liabilities within the scope of FRS 39 $'000 | Other liabilities outside the scope of FRS 39 $'000 | Total carrying amount $'000 | Fair value $'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | | |
| Cash and cash equivalents | 17 | 17,556 | – | – | – | – | 17,556 | 17,556 |
| Trade and other receivables | 16 | 120,040 | – | – | – | – | 120,040 | 120,040 |
| Financial derivative assets | 13 | – | – | 363 | – | – | 363 | 363 |
| Loans to investee companies | 11 | 731 | – | – | – | – | 731 | 676 |
| Available-for-sale equity securities | 12 | – | 910 | – | – | – | 910 | 910 |
| | | 138,327 | 910 | 363 | – | – | 139,600 | 139,545 |
| Financial derivative liabilities | 13 | – | – | (388) | – | – | (388) | (388) |
| Bank loans | 19 | – | – | – | (149,832) | – | (149,832) | (149,832) |
| Trade and other payables | 21 | – | – | – | (158,947) | – | (158,947) | (158,947) |
| | | – | – | (388) | (308,779) | – | (309,167) | (309,167) |
| **31 December 2011** | | | | | | | | |
| Cash and cash equivalents | 17 | 53,674 | – | – | – | – | 53,674 | 53,674 |
| Trade and other receivables | 16 | 110,324 | – | – | – | – | 110,324 | 110,324 |
| Financial derivative assets | 13 | – | – | 6,405 | – | – | 6,405 | 6,405 |
| Loan to investee companies | 11 | 1,302 | – | – | – | – | 1,302 | 1,220 |
| Available-for-sale equity securities | 12 | – | 1,235 | – | – | – | 1,235 | 1,235 |
| | | 165,300 | 1,235 | 6,405 | – | – | 172,940 | 172,858 |
| Financial derivative liabilities | 13 | – | – | (25,478) | – | – | (25,478) | (25,478) |
| Bank loans | 19 | – | – | – | (136,321) | – | (136,321) | (136,321) |
| Finance lease liabilities | 19 | – | – | – | – | (162) | (162) | (154) |
| Trade and other payables | 21 | – | – | – | (103,412) | – | (103,412) | (103,412) |
| | | – | – | (25,478) | (239,733) | (162) | (265,373) | (265,365) |

## 22 Financial instruments (cont'd)

| Company | Note | Loans and receivables $'000 | Available for-sale $'000 | Other financial liabilities within the scope of FRS 39 $'000 | Other liabilities outside the scope of FRS 39 $'000 | Total carrying amount $'000 | Fair value $'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | |
| Cash and cash equivalents | 17 | 286 | – | – | – | 286 | 286 |
| Trade and other receivables | 16 | 4,019 | – | – | – | 4,019 | 4,019 |
| Loans to investee companies | 11 | 731 | – | – | – | 731 | 731 |
| Available-for-sale equity securities | 12 | – | 805 | – | – | 805 | 805 |
| | | 5,036 | 805 | – | – | 5,841 | 5,841 |
| Bank loans | 19 | – | – | (3,580) | – | (3,580) | (3,580) |
| Finance lease liabilities | 19 | – | – | – | – | – | – |
| Trade and other payables | 21 | – | – | (5,949) | – | (5,949) | (5,949) |
| | | – | – | (9,529) | – | (9,529) | (9,529) |
| **31 December 2011** | | | | | | | |
| Cash and cash equivalents | 17 | 54 | – | – | – | 54 | 54 |
| Trade and other receivables | 16 | 3,943 | – | – | – | 3,943 | 3,943 |
| Loans to investee companies | 11 | 1,302 | – | – | – | 1,302 | 1,220 |
| Available-for-sale equity securities | 12 | – | 1,130 | – | – | 1,130 | 1,130 |
| | | 5,299 | 1,130 | – | – | 6,429 | 6,347 |
| Bank loans | 19 | – | – | (2,000) | – | (2,000) | (2,000) |
| Finance lease liabilities | 19 | – | – | – | (162) | (162) | (154) |
| Trade and other payables | 21 | – | – | (2,494) | – | (2,494) | (2,494) |
| | | – | – | (4,494) | (162) | (4,656) | (4,648) |

***Interest rates used for determining fair value***

The interest rates used to discount estimated cash flows, when applicable, are based on the prevailing market borrowing rates which are available to the Group at the reporting date, and were as follows:

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | % | % |
| Bank loans | 1.91 – 7.86 | 1.85 – 8.46 |
| Finance lease liabilities | – | 4.99 |

***Fair value hierarchy***

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 22 Financial instruments (cont'd)

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **31 December 2012** | | | | |
| Available-for-sale unquoted equity securities | – | 910 | – | 910 |
| Forward exchange contracts | | | | |
| - Derivative financial assets | – | 363 | – | 363 |
| Total assets | – | 1,273 | – | 1,273 |
| Forward exchange contracts | | | | |
| - Derivative financial liabilities | – | (388) | – | (388) |
| | – | 885 | – | 885 |
| **31 December 2011** | | | | |
| Available-for-sale unquoted equity securities | – | 806 | 429 | 1,235 |
| Forward exchange contracts | | | | |
| - Derivative financial assets | – | 6,405 | – | 6,405 |
| Total assets | – | 7,211 | 429 | 7,640 |
| Forward exchange contracts | | | | |
| - Derivative financial liabilities | – | (25,478) | – | (25,478) |
| | – | (18,267) | 429 | (17,838) |
| **Company** | | | | |
| **31 December 2012** | | | | |
| Available-for-sale unquoted equity securities | – | 805 | – | 805 |
| **31 December 2011** | | | | |
| Available-for-sale unquoted equity securities | – | 805 | 325 | 1,130 |

There has been no transfer of the Group's and the Company's financial assets and financial liabilities to/from other levels during the year.

## 23 Revenue

| | Group | |
|---|---|---|
| | 2012 $'000 | 2011 $'000 |
| Sale of goods | 615,735 | 541,469 |

## 24 Finance income and costs

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Interest income: | | |
| - fixed deposits | 246 | 410 |
| - loans to investee companies | 67 | 106 |
| - loan to an associate | 248 | 43 |
| - banks | 99 | 234 |
| Finance income | 660 | 793 |
| Interest expense: | | |
| - bank loans | (4,184) | (3,164) |
| - finance lease liabilities | – | (23) |
| - discounting charges/service fees paid/payable to banks | (895) | – |
| - others | (202) | – |
| Finance costs | (5,281) | (3,187) |
| Net finance costs recognised in profit or loss | (4,621) | (2,394) |

## 25 Profit/(Loss) before tax

The following items have been included in arriving at Profit/(Loss) before tax:

| | | Group | |
|---|---|---|---|
| | Note | 2012 | 2011 |
| | | $'000 | $'000 |
| Audit fees paid to: | | | |
| - auditors of the Company | | 439 | 531 |
| - other auditors | | 161 | 242 |
| Gain on disposal of property, plant and equipment | | (341) | (86) |
| Impairment loss on property, plant and equipment | 4 | – | 3,742 |
| Inventories write-off arising from Thailand floods | | – | 1,827 |
| Impairment loss on loan to investee companies | | 2,224 | 1,112 |
| Fair value (gain)/loss on financial derivatives | | (18,264) | 19,567 |
| Foreign exchange (gain)/loss | | 2,165 | (9,122) |
| Operating lease expense | | 13,485 | 11,847 |
| Changes in raw materials, work-in-progress, finished goods and spare parts and others | 15 | 564,985 | 481,971 |
| Depreciation expense | 4,7 | 39,081 | 33,524 |
| Directors' fees | | 144,048 | 111,025 |
| Rental income from investment property leases | | 275 | 131 |
| Insurance claims * | | (157) | (206) |
| | | (13,348) | – |
| ***Employee benefits expense*** | | | |
| Salaries, bonuses and other costs | | 133,679 | 104,065 |
| Contributions to defined contribution plans | | 10,189 | 6,737 |
| Equity-settled share-based payment transactions | | 180 | 223 |
| | | 144,048 | 111,025 |

* During 2012, the Group recognised proceeds of $13,348,000 (2011: $Nil) in insurance claims due to the Thailand flood.

## 26 Tax (credit)/expense

| | Note | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|---|
| **Current tax expense** | | | |
| Current year | | 3,995 | 4,178 |
| Under/(Over) provision in prior years | | 136 | (1,366) |
| | | 4,131 | 2,812 |
| **Deferred tax expense** | | | |
| Origination and reversal of temporary differences | 14 | (4,873) | (1,171) |
| Total tax (credit)/expense | | (742) | 1,641 |

| | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|
| ***Reconciliation of effective tax rate*** | | |
| Profit/(Loss) before tax | 23,659 | (5,774) |
| | | |
| Income tax using Singapore tax rate of 17% | 4,022 | (982) |
| Effect of different tax rates in foreign jurisdictions | 1,084 | (883) |
| Non-deductible expenses | 3,213 | 5,616 |
| Income not subject to tax | (8,929) | (1,181) |
| Income taxed at preferential tax rate outside Singapore | (555) | (186) |
| Tax benefits from tax losses not recognised | 316 | 603 |
| Under/(Over) provided in prior years | 136 | (1,366) |
| Others | (29) | 20 |
| | (742) | 1,641 |

Details of the Group's tax incentives are as follows:

Previously, certain subsidiaries in the People's Republic of China were entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year was exempted from income tax in the People's Republic of China and the profit of the subsequent three financial years was taxed at 50% of the prevailing tax rate set by the local authority. A new Corporate Income Tax Law which took effect on 1 January 2008 states that subsidiaries in the People's Republic of China which have not utilised their five-years tax concessions under the old tax law will be required to utilise their first-year of tax concession commencing from 2008.

As at 31 December 2012, all subsidiaries have utilised their five-years tax concession.

Tax sparing credits are available to a Mauritius subsidiary, Compart Asia Pacific Ltd, whereby the subsidiary is entitled to a deemed credit of 80% of the tax on its foreign source income.

A subsidiary in Thailand, Compart Precision (Thailand) Co., Ltd is under tax holiday in accordance with the provisions of the Industrial Investment Promotion Act of B.E. 2520 that grants exemption from payment of corporate income tax for a period of seven years from the date on which the income is first derived from the promoted business. The exemption was subsequently renewed in 2009. The tax holiday expires in 2017.

## 26 Tax (credit)/expense (cont'd)

***Measurement of provision for income taxes***

The Group derives a substantial amount of its profit from manufacturing and trading activities across several countries before the sale of final products to ultimate customers and is therefore subject to income taxes in several jurisdictions. Significant judgement is required in determining the taxable profit in each of the tax jurisdictions during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Therefore, the Group recognises tax liabilities based on its assessment of whether it is probable, that additional taxes and interests will be due. These tax liabilities are recognised when the Group believes that certain positions may not be fully sustained upon review by tax authorities, despite the Group's belief that its tax return positions are supportable. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of multi-faceted judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

As at 31 December 2012, the portion of the Group's provision for income taxes subject to significant judgement and uncertainty amounted to $11.8 million (2011: $12.6 million). If the actual final outcome differs by 10% from management's estimates, the Group's income tax liability taken up in the financial statements would reduce or increase by $1,180,000 (2011: $1,260,000).

## 27 Earnings per share

***Basic earnings per share***

The calculation of basic earnings per share for the year ended 31 December 2012 was based on the profit attributable to ordinary shareholders of $24,501,000 (2011: loss attributable to ordinary shareholders of $7,211,000), and a weighted average number of ordinary shares outstanding of 415,486,000 (2011: 415,573,000), calculated as follows:

*Weighted average number of ordinary shares*

| | | Group | |
|---|---|---|---|
| | | 2012 | 2011 |
| | Note | No. of shares | No. of shares |
| | | '000 | '000 |
| Issued ordinary shares at 1 January | 18 | 416,442 | 207,906 |
| Effect of bonus issue | | – | 207,875 |
| Effect of own shares held | | (956) | (417) |
| Effect of share options exercised | | – | 209 |
| Weighted average number of ordinary shares at 31 December | | 415,486 | 415,573 |

## 27 Earnings per share (cont'd)

***Diluted earnings per share***

The calculation of diluted earnings per share for the year ended 31 December 2012 was based on profit attributable to ordinary shareholders of $24,501,000 (2011: loss attributable to ordinary shareholders of $7,211,000), and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 417,075,000 (2011: 415,573,000), calculated as follows:

*Weighted average number of ordinary shares (diluted)*

| | Group | |
|---|---|---|
| | **2012** | **2011*** |
| | **No. of shares** | **No. of shares** |
| | **'000** | **'000** |
| Weighted average number of ordinary share (basic) | 415,486 | 415,573 |
| Effect of share options on issue | 74 | – |
| Effect of share awards not released | 1,515 | – |
| Weighted average number of ordinary share (diluted) at 31 December | 417,075 | 415,573 |

* The 2011 comparative figures have been adjusted for the bonus issue in 2011.

At 31 December 2012, 1,860,000 (2011: 2,050,000) options were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

## 28 Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Executive Chairman (the chief operating decision maker) reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Foam plastics: Manufacture and sale of expandable foam plastics for packaging, insulation and other applications.
- Hard disk drive: Manufacture and distribution of actuator arms and related assembly for the Hard disk drive industry.
- Non-Hard disk drive: Manufacture and distribution of precision machined components for industrial products used mainly in automotive and semi-conductor sectors.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Group's Executive Chairman. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

## 28 Operating segments (cont'd)

***Information about reportable segments***

| | Foam plastics | | Hard disk drive | | Non-Hard disk drive | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| External revenue, representing consolidated revenue | 172,953 | 152,248 | 399,840 | 342,817 | 42,942 | 46,404 | 615,735 | 541,469 |
| Finance income | 293 | 73 | 346 | 592 | 20 | 1 | 659 | 666 |
| Finance costs | (1,149) | (802) | (3,857) | (1,958) | (333) | (321) | (5,339) | (3,081) |
| Depreciation | (7,280) | (5,619) | (25,472) | (20,699) | (6,196) | (6,993) | (38,948) | (33,311) |
| Insurance claims | – | – | 13,348 | – | – | – | 13,348 | – |
| Share of profit of associates | 161 | 65 | – | – | – | – | 161 | 65 |
| Reportable segment profit/(loss) before tax | 8,581 | 8,898 | 5,765 | 3,123 | (1,096) | (281) | 13,250 | 11,740 |
| Other material non-cash items: | | | | | | | | |
| - Inventories write-down | – | – | – | (1,827) | – | – | – | (1,827) |
| - Impairment losses on property, plant and equipment | – | – | – | (3,742) | – | – | – | (3,742) |
| Reportable segment assets | 134,177 | 126,423 | 340,562 | 285,248 | 42,178 | 49,889 | 516,917 | 461,560 |
| Investment in associates | 1,198 | 1,179 | – | – | – | – | 1,198 | 1,179 |
| Capital expenditure | 18,834 | 11,402 | 100,986 | 28,657 | 4,165 | 7,304 | 123,985 | 47,363 |
| Reportable segment liabilities | 72,072 | 68,119 | 221,989 | 155,203 | 15,909 | 19,527 | 309,970 | 242,849 |

## 28 Operating segments (cont'd)

***Reconciliations of reportable segment profit or loss, assets and liabilities and other material items***

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Profit or loss** | | |
| Total profit for reportable segments | 13,250 | 11,740 |
| Unallocated amounts: | | |
| - Fair value gain/(loss) on financial derivatives | 18,264 | (19,567) |
| - Other corporate (expenses)/income | (8,016) | 1,988 |
| Share of profit of associates | 161 | 65 |
| Consolidated profit/(loss) before tax | 23,659 | (5,774) |
| **Assets** | | |
| Total assets for reportable segments | 516,917 | 461,560 |
| Investments in associates | 1,198 | 1,179 |
| Other unallocated amounts * | 14,362 | 29,243 |
| Consolidated total assets | 532,477 | 491,982 |
| **Liabilities** | | |
| Total liabilities for reportable segments | 309,970 | 242,849 |
| Other unallocated amounts ^ | 12,838 | 36,772 |
| Consolidated total liabilities | 322,808 | 279,621 |

* As at 31 December 2012, the unallocated assets mainly relate to cash and cash equivalents amounting to $6,336,000 (2011: $15,540,000), financial derivative assets amounting to $363,000 (2011: $6,405,000) and investment properties of $3,317,000 (2011: $3,461,000) that are unallocated to the segments.

^ As at 31 December 2012, the unallocated liabilities mainly relate to financial derivative liabilities amounting to $388,000 (2011: $25,478,000) and corporate bank loans of $9,405,000 (2011: $7,176,000) that are unallocated to the segments.

| | Reportable segment totals $'000 | Adjustments $'000 | Consolidated totals $'000 |
|---|---|---|---|
| **Other material items 2012** | | | |
| Finance income | 659 | 1 | 660 |
| Finance costs | (5,339) | 58 | (5,281) |
| Capital expenditure | 123,985 | 56 | 124,041 |
| Depreciation | (38,948) | (133) | (39,081) |
| Impairment loss on loan to investee companies | – | (2,224) | (2,224) |
| Fair value gain on financial derivatives | – | 18,264 | 18,264 |
| **Other material items 2011** | | | |
| Finance income | 666 | 127 | 793 |
| Finance costs | (3,081) | (106) | (3,187) |
| Capital expenditure | 47,363 | 154 | 47,517 |
| Depreciation | (33,311) | (213) | (33,524) |
| Impairment loss on loan to an investee company | – | (1,112) | (1,112) |
| Fair value loss on financial derivatives | – | (19,567) | (19,567) |

## 28 Operating segments (cont'd)

***Geographical information***

Singapore is the country of domicile of the Company. The principal activity of the Company is that of an investment holding company. Subsidiaries of the Company in the three reportable segments are located in People's Republic of China, Singapore, Thailand and United States of America.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

| | Revenues $'000 | Non-current assets* $'000 |
|---|---|---|
| **31 December 2012** | | |
| People's Republic of China | 451,347 | 171,104 |
| Singapore | 11,622 | 87,793 |
| Thailand | 113,972 | 18,144 |
| United States of America | 15,935 | 3,132 |
| Other countries | 22,859 | – |
| | 615,735 | 280,173 |
| **31 December 2011** | | |
| People's Republic of China | 403,754 | 133,409 |
| Singapore | 5,411 | 75,971 |
| Thailand | 86,233 | 6,197 |
| United States of America | 22,617 | 2,456 |
| Other countries | 23,454 | – |
| | 541,469 | 218,033 |

* Non-current assets presented consist of property, plant and equipment, goodwill, investment properties, associates and club memberships.

***Major customers***

Revenue from three major customers of the Group's HDD segment represents approximately $407,255,000 (2011: $352,153,000) of the Group's total revenue.

## 29 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

***Property, plant and equipment***

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's leasehold land and buildings on a triennial basis.

The fair values of leasehold land and buildings and property, plant and equipment recognised as a result of a business combination are the estimated amounts for which a property could be exchanged on the date of valuation and acquisition respectively between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

## 29 Determination of fair values (cont'd)

The fair values of leasehold land and buildings and plant and machinery are based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

***Derivatives***

The fair value of forward exchange contracts is based on price quotations.

***Non-derivative financial liabilities***

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## 30 Operating leases

***Leases as lessee***

Non-cancellable operating lease rentals are payable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Within one year | 8,670 | 7,066 | 311 | 374 |
| Between one and five years | 11,183 | 11,134 | – | 311 |
| | 19,853 | 18,200 | 311 | 685 |

The Group and Company leases a number of warehouses, factory facilities and offices under operating leases. The leases typically run for a period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased upon renewal to reflect market rentals.

***Leases as lessor***

The Group leases out its investment properties held under operating leases (see note 7). The future minimum lease payments under non-cancellable leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Within one year | 241 | 144 | 151 | 95 |
| Between one and five years | 443 | – | 278 | – |
| | 684 | 144 | 429 | 95 |

During the year, $157,000 (2011: $206,000) was recognised as rental income in profit or loss by the Group.

## 31 Capital commitments

As at 31 December 2012, the Group had entered into contracts to purchase property, plant and equipment for $47,449,000 (2011: $31,788,000).

As at 31 December 2012, the Company had an uncalled capital commitment to subscribe for additional investment in a subsidiary amounting to $17,242,000 (2011:$12,034,000).

## 32 Contingencies

Intra-group financial guarantees comprise corporate guarantees granted by the Company to banks in respect of banking facilities amounting to $185,384,000 (2011: $184,297,000) provided to its subsidiaries. The financial guarantees will expire when the loans have been paid and discharged and/or when the banking facilities are no longer available to the subsidiaries. These financial guarantee contracts are accounted for as insurance contracts.

The principal risk to which the Company is exposed is the credit risk in connection with the guarantee contract it has issued. The credit risk represents the loss that would be recognised upon a default by the subsidiary to which the guarantee was given for the benefit of.

There are no terms and conditions attached to the guarantee contract that would have a material effect on the amount, timing and uncertainty of the Company's future cash flows.

Estimates of the Company's obligation arising from the financial guarantee contracts may be affected by future events, which cannot be predicted with certainty. The assumptions made may well vary from actual experience so that the actual liability may vary considerably from the best estimates. As of balance sheet date, there is no provision made in respect of the obligation.

## 33 Related parties

***Transactions with key management personnel***

*Key management personnel compensation*

Key management personnel of the Company and the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The Directors of the Company and the Group are considered as key management personnel of the Company and the Group.

Key management personnel compensation comprised:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Short-term employee benefits | 2,531 | 3,123 |
| Post-employment benefits (including CPF) | 10 | 24 |
| Share-based payments | 38 | 80 |
| | 2,579 | 3,227 |

Included in the above, total compensation to Directors of the Company amounted to $1,553,000 (2011: $2,084,000).

Directors also participate in the Broadway Industrial Group Limited Share Option Scheme 2001 and the BIGL Share Plan. Nil (2011: 100,000) share options and 120,000 (2011: 120,000) share awards were granted to the Directors of the Company during the year. The share options and share awards that were granted in 2012 were on the terms and conditions as described in note 20. At the balance sheet date, 900,000 (2011: 900,000) of those share options and 240,000 (2011: 120,000) of those share awards were outstanding.

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Sales of goods to associates | 2,319 | 806 |

# Corporate Governance Report

Broadway Industrial Group Limited ("the Company") continues to uphold a high standard of Corporate Governance within the Group. In its support of the Code of Corporate Governance 2005 ("the Code"), as annexed to the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Board of Directors ("the Board") has established various self-regulating and monitoring mechanisms to ensure that effective corporate governance is practiced. This report outlines the Group's corporate governance practices with specific references to the Code.

Other than deviations explained below, the Group has complied with the principles and guidelines of the Code. There are other sections in the Group's Annual Report that are relevant to the discussion of corporate governance, hence this report should be read together with those sections.

**Principle 1**

## Board's Conduct of Its Affairs

The Board supervises the management of the business and affairs of the Group. Key functions of the Board include the setting of the Group's strategic plans, key operational initiatives, major investments and funding decisions. The Board also identifies principal risks of the Group's business, ensures the implementation of appropriate systems to manage these risks and reviews the financial performance of the Group regularly. The Board also approves the annual budget and the financial results for release to the SGX-ST.

The Board is supported in its tasks by Board Committees that have been established to assist in the execution of its responsibilities. In order to facilitate decision-making and to ensure the smooth operation of the Group, the Board has delegated some of its powers to the Executive Chairman. The Board is also supported by the Audit Committee, Remuneration Committee and Nomination Committee. The composition and terms of reference of each Committee are described in this report.

The Board meets at least four times a year. Ad hoc meetings are convened if there are matters requiring the Board's decision at the relevant times. Board approval is specifically sought for major financial and investment proposals.

The Board is regularly updated on new laws that may affect the Group's business and changes in regulatory requirements and financial reporting standards. Directors and senior executives are encouraged to undergo relevant training to enhance their skills and knowledge, particularly on new laws and regulations affecting the Group's operations and governance practices.

All Directors have separate and independent access to the Company's senior management and the Company Secretary and/or the Regional Legal Counsel. The Company Secretary and/or the Regional Legal Counsel attends the Board and Board Committee meetings and is responsible for ensuring that Board procedures are followed. The agenda for the meetings of the Board and its Committees, together with the appropriate supporting documents, are circulated to the Board prior to the meetings.

## Directors' Attendances at Board, Audit, Remuneration and Nomination Committees Meetings

The number of Board meetings and Board Committee meetings held in the financial year ended 31 December 2012 and the attendance of Directors at these meetings are as follows:

| Meetings of: | Board | Audit | Remuneration | Nomination |
|---|---|---|---|---|
| **Total held in FY ended 31 December 2012** | 6 | 4 | 1 | 1 |
| Wong Sheung Sze | 6 | N.A. | N.A. | N.A. |
| Lee Chow Soon | 6 | 4 | 1 | 1 |
| Eu Yee Ming Richard | 6 | 4 | 1 | 1 |
| Lee Po Lo @ Lee Khong Kee | 5 | 3 | N.A. | N.A. |
| Ng Ah Hoy | 6 | N.A. | N.A. | N.A. |
| Tsiang An Kai Richard | 5 | 4 | N.A. | 1 |
| Lew Syn Pau | 6 | 4 | –(1) | 1 |

Note:

(1) The Remuneration Committee met on 20 February 2012. Mr Lew Syn Pau was appointed as member of the Remuneration Committee on 2 April 2012.

### Principles 2, 3 & 4
## Board Composition, Balance and Membership

### Principle 2
## Board Composition

The Board currently comprises seven Directors, four of whom are independent, and one who is non-executive and non-independent. As at the date of this report, the composition of the Board and Board Committees are tabled as follows:

| Name of Director and role in Board | Board | Audit committee | Remuneration committee | Nomination committee |
|---|---|---|---|---|
| Wong Sheung Sze<br>Executive Chairman | Chairman | | | |
| Ng Ah Hoy<br>Executive Director | Member | | | |
| Lee Po Lo @ Lee Khong Kee<br>Non-Independent and Non-Executive Director | Member | Member | | |
| Lee Chow Soon<br>Independent and Non-Executive Director | Member | Chairman | Member | Member |
| Eu Yee Ming Richard<br>Independent and Non-Executive Director | Member | Member | Chairman | Chairman |
| Tsiang An Kai Richard<br>Independent and Non-Executive Director | Member | Member | | Member |
| Lew Syn Pau<br>Independent and Non-Executive Director | Member | Member | Member | Member |

As a group, the Directors bring with them a broad range of expertise and experience in areas such as accounting, finance, law, business and management, strategic planning and customer service. The diversity of the Directors' experience allows for the useful exchange of ideas and views. The profile of each Board member is set out in the section entitled "Board of Directors" on page 4.

### Principle 3
## Chairman and Chief Executive Officer

The Group's Executive Chairman, Mr Wong Sheung Sze, is responsible for the overall management, strategic planning and business development of the Group. The role of the Executive Chairman is not separate from that of a Group CEO as the Board is of the view that it is in the interest of the Group to adopt a single leadership structure so as to ensure that decision-making process of the Group would not be unnecessarily hindered. The Board also does not consider it necessary to have a lead independent Director as the process of decision-making is based on collective decisions without any individual exercising any considerable concentration of power or influence.

On 29 July 2012, the Board announced that the Executive Chairman has been diagnosed with Parkinson's disease and is undergoing specialist medical treatment to manage his condition. Based on professional medical assessment, he is able to continue executing his management duties. The Nomination Committee is overseeing the search and appointment of a Chief Executive Officer to handle the day-to-day operations and management of the Group.

### Principle 4
## Board Membership

The Board had on 29 July 2012 established a Nomination Committee ("NC"). The NC comprises the following independent Directors:

Eu Yee Ming Richard (Chairman)
Lee Chow Soon
Tsiang An Kai Richard
Lew Syn Pau

The NC is regulated by a set of written terms of reference endorsed by the Board, setting out their duties and responsibilities. Through a formal and transparent process, the NC reviews the Board structure, size and composition and make recommendations to the Board on all Board appointments and re-nomination. It strives to ensure that the Board and members of the various Board Committees has the appropriate mix of expertise and experience to discharge their duties in compliance with the applicable law and regulations, and high standards of corporate governance. The NC is of the opinion that the size and composition of the Board is appropriate and adequate for the current nature and scope of the Group's operations.

The NC has reviewed the independence of the Directors for FY2012 in accordance with the Code's definition of independence and is of the view that Mr Eu Yee Ming Richard, Mr Lee Chow Soon, Mr Tsiang An Kai Richard and Mr Lew Syn Pau are independent. The NC has conducted a formal assessment of the Board's performance as a whole, and the contribution by each individual Director to the effectiveness of the Board for FY2012. The NC is also responsible for re-nominating Directors who retire by rotation or otherwise, and in recommending any re-nomination and re-election of existing Directors, the NC takes into account such Directors' contribution and performance at Board meetings, including their attendance, level of preparedness, degree of participation and candour.

The Company's Articles of Association requires that in each year, one-third of the Directors will have to retire from office. The NC has reviewed and recommended that Mr Eu Yee Ming Richard and Mr Lee Po Lo @ Lee Khong Kee be re-elected at the upcoming Annual General Meeting. The Board has accepted the NC's recommendation.

Pursuant to Section 153(6) of the Companies Act, Mr Lee Chow Soon who is over the age of 70, is subject to re-appointment as a Director of the Company at the upcoming Annual General Meeting, to hold office until the next Annual General Meeting. As Mr Lee Chow Soon has been an independent Director of the Board for more than 9 years, the NC had rigorously examined Mr Lee as to his continuing independence where he is to be re-appointed as an independent Director. The NC found no reason to believe that the length of his appointment has in any way dimmed Mr Lee's independence. Having considered Mr Lee's in-depth knowledge of the Group's business operations, past and continuous contribution at the Board level and professionalism in carrying out his duties, the NC had found Mr Lee suitable to continue to act as an independent Director. The Board has accepted the NC's recommendation that Mr Lee be re-appointed at the forthcoming Annual General Meeting.

**Principles 5 & 6**

## Board Performance and Access to Information

The Board is furnished with relevant information and analysis by management pertaining to matters for the Board's discussion and decision. Management also ensures that the Board receives regular reports on the Group's financial performance and operations. The Board has separate and independent access to the management and the Company Secretary and/or the Regional Legal Counsel at all times. The Company Secretary and/or the Regional Legal Counsel attends to all corporate secretariat and compliance matters and is responsible for ensuring that legal and regulatory requirements as well as Board procedures are complied with. The Company Secretary and/or the Regional Legal Counsel attends Board meetings. The appointment and removal of the Company Secretary are subject to the approval of the Board.

To assist Board members in fulfilling their responsibilities, procedures are in place for Directors to seek independent professional advice, where appropriate, at the expense of the Company.

**Principles 7, 8 & 9**

## Remuneration Matters

## Remuneration Committee

The Remuneration Committee ("RC") performs critical roles in support of sound Corporate Governance principle in the areas of Board compensation and executive reward management. For the financial year ended 31 December 2012, the RC comprised the following independent Directors:

| | |
|---|---|
| Eu Yee Ming Richard | (Chairman) |
| Lee Chow Soon | |
| Lew Syn Pau | (Appointed on 2 April 2012) |

The RC's function is in attracting, retaining and rewarding well-qualified persons to serve the Group by pegging remuneration and benefits at competitive market rates. Directors' fees and the base salaries of staff are reviewed to ensure they are at sufficiently competitive levels. A compensation system is in place to reward staff based on their merit and performance through annual merit service increments and profit sharing. The Company's share option scheme for Directors, senior management and executives serves as a long-term incentive plan. The share option scheme expired on 7 November 2011. In addition, the Company has in place a share plan, which was approved by the shareholders of the Company at an Extraordinary General Meeting held on 28 July 2010. The share plan is to reward, retain and motivate employees of the Group and/or associated compaies who excel in their performance and encourages greater dedication, loyalty and higher standards of performance. The share option scheme and share plan are administrated by the RC.

The RC has access to expert and independent professional advice in the field of executive compensation where required, at the Company's expense. No Director fixes his own remuneration. Directors' fees are paid only after approval by shareholders at the Company's Annual General Meeting.

## Disclosure on remuneration of Directors

| Remuneration band and Name of Directors | Salary % | Bonus % | Directors' fee % | Directors' profit sharing % | Advisory Services % | Consultancy services % | Benefits-in-kind % | Share award* % |
|---|---|---|---|---|---|---|---|---|
| S$500,000 to S$749,999 | | | | | | | | |
| Wong Sheung Sze | 41 | 3 | 5 | - | - | - | 51 | - |
| S$250,000 to S$499,999 | | | | | | | | |
| Ng Ah Hoy | 71 | 18 | 4 | - | - | - | 3 | 4 |
| S$0 to S$249,999 | | | | | | | | |
| Lee Po Lo @ Lee Khong Kee | 30 | 9 | 20 | - | 25 | - | 7 | 9 |
| Lee Chow Soon | - | - | 100 | - | - | - | - | - |
| Eu Yee Ming Richard | - | - | 100 | - | - | - | - | - |
| Tsiang An Kai Richard | - | - | 100 | - | - | - | - | - |
| Lew Syn Pau | - | - | 100 | - | - | - | - | - |

* Refer to share awards granted under the BIGL Share Plan to executive Directors during the financial year. The fair value of stock awards granted is estimated using Trinomial Option Pricing model. The details of the BIGL Share Plan are provided in the Directors' Report.

## Disclosure on remuneration of the top five key executives (who are not Directors)

For competitive reasons, the Board is of the view that disclosure on remuneration of key executives will not benefit the Company.

There was no immediate family member of a Director or the CEO whose remuneration exceeded S$150,000 during the financial year.

**Principles 10, 11, 12 & 13**

## Accountability, Audit & Internal Controls

### Audit Committee

The Audit Committee ("AC") comprises four independent Directors and one non-executive Director, and all of whom have the requisite qualifications to discharge their responsibilities:

Lee Chow Soon (Chairman)
Eu Yee Ming Richard
Lee Po Lo @ Lee Khong Kee
Tsiang An Kai Richard
Lew Syn Pau

The composition of the AC is in compliance with Section 201B of the Companies Act, which prescribes that majority of the AC Members must not be executive Directors of the Company or any related corporations. With the majority of the AC Members including the Chairman being independent, the AC is able to perform its roles and functions independently.

The AC is authorised by the Board to investigate any activity within its terms of reference, having unrestricted access to information relating to the Group, to both internal and external auditors, and to the Management and staff. It has full discretion to invite any Director or executive officer to attend its meetings. It has adequate resources to enable it to discharge its functions properly. The AC, having reviewed the non-audit services provided by the external auditors to the Group, has confirmed that there were no such services provided during the year which would affect the independence of the external auditors.

The AC meets at least four times a year. Ad hoc meetings are convened when circumstances require. The attendances at AC meetings are disclosed on page 76 of this report.

The AC performs the following key functions:

(a) recommends the nomination or re-nomination of the independent auditors and approves the compensation for the auditing services;

(b) reviews the plan, scope and findings of the independent auditors as well as meeting with the independent auditors at least once a year without the presence of the management to ensure the independence of their functions;

(c) reviews all non-audit services provided by the auditors and confirms that these non-audit services would not affect the independence of the auditors;

(d) reviews the quarterly, half-year and full year results announcements and financial statements of the Company and the consolidated financial statements of the Group before submission to the Board for approval for the release of the results announcements to the SGX-ST;

(e) evaluates, with the other committees, management and the independent auditors, significant risks or exposures that exist and assess the steps management has taken to minimise such risk to the Group;

(f) recommends the appointment of internal auditors and reviews the plan, scope and findings of the internal audit;

(g) reviews with the management annually:

    i. significant internal audit observations during the year and corrective actions taken by the management;

    ii. the effectiveness of the Group's internal controls over management, business and technology systems and practices; and

    iii. any changes required in the planned scope of the audit plan and difficulties encountered in the course of their audits;

(h) reviews financial and regulatory matters that may have a material impact on the financial statements, related exchange compliance policies and programmes and reports received from regulators;

(i) reports actions and minutes of the AC to the Board of Directors with such recommendations as the AC considers appropriate;

(j) reviews interested person transactions to ensure that the established review procedures to monitor interested party transactions have been complied with; and

(k) reviews arrangements by which staff of the Company may in confidence raise concerns about possible improprieties in matters of financial reporting or other matters. The Group has in place a whistle blowing policy which provides the mechanism for which staff of the Group may in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

## Internal Controls

The AC reviewed the Group's system of internal controls, including financial, operational and compliance controls, risk management policies and procedures established by the management. This ensures that such system is sound and adequate to provide reasonable assurance of the integrity, effectiveness and efficiency of the Company in safeguarding Shareholders' investments and the Company's assets. Additionally, in performing their audit of the financial statements, the external auditors perform tests over operating effectiveness of certain controls that the auditors intend to rely on that are relevant to the Group's preparation of its financial statements. The external auditors also report any significant deficiencies in such internal controls to the Directors and the AC.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors and reviews performed by the Management, the Board, with the concurrence of the AC, is of the opinion that the Group's internal controls addressing financial, operational and compliance risks are adequate as at 31 December 2012. The Board regularly reviews the effectiveness of all internal controls, including operational controls of the Group.

The Board notes that no system of internal control could provide absolute assurance against material financial misstatements, poor judgment in decision-making, human error, losses, fraud or other irregularities. The system of internal control includes safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulations and best practices, and the identification and containment of financial, business and compliance risks.

Any material internal control matters noted by the external auditors in the course of their statutory audit have been discussed with the AC.

## Internal Audit

The Group outsourced its internal audit function to PricewaterhouseCoopers LLP – an independent third party accounting firm (IA). The IA is not related to the external auditors and reports directly to the AC. The AC reviews and approves the IA's internal audit plan, reviews with the IA and reports to the Board the findings and results of internal audit work.

## Risk Management Policies and Processes

The main risks arising from the Group's financial operations are liquidity risk, foreign currency risk, credit risk and interest rate risk. The Board reviews and agrees on policies for managing each of these risks.

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the Directors to finance the Group's operations and mitigate the effects of fluctuations in cash flow. To ensure that the Group has adequate overall liquidity to finance its operations and investment requirements, the Group maintains a significant amount of available banking facilities with a number of banks.

The Group's main currency exposures are in Singapore Dollar, United States Dollar, Thailand Baht and Chinese Renminbi. The Group uses a combination of natural hedges of matching assets and liabilities and forward contracts and derivatives as a hedging tool to manage its exposure to fluctuating foreign currency values.

# Corporate Governance Report (cont'd)

As for credit risk, the Group places its cash and cash equivalents with creditworthy institutions. The Group performs ongoing credit evaluation of its customers' financial conditions.

The Group manages its interest rate risk by maintaining a prudent mix of fixed and floating interest rate borrowings. In managing the interest rate profile, the Group takes into account the interest rate outlook and the expected cash flow generated from its business operations.

Various measures are implemented to manage Group's operational risks. These include safety and security, internal control procedures and appropriate insurance coverage.

## Principles 14 & 15
## Communication with Shareholders

The Group believes in upholding a strong culture of continuous disclosure and transparent communication with all stakeholders and does not practice selective disclosure. All material and price-sensitive information relating to the Group are released timely and equally to the general public and shareholders by way of public releases or announcements through SGXNET.

The management believes in nurturing a long-term relationship with the investment community and actively participates in briefings, conferences and investor events to communicate with investors and analysts.

The management will also conduct briefings for analysts and investors, generally after quarterly financial results announcements. During the briefing, the Group's Chief Financial Officer and management team will highlight the Group's most recent performance as well as discuss its business progress and outlook. In light of fair disclosure, such briefings are held only after the financial results and briefing materials are released on SGXNET to ensure shareholders and public have access to the same information.

The management ensures that all shareholders will receive the annual report, circulars and notices of the shareholders' meetings within the mandatory period. Shareholders are encouraged to attend and participate at the Company's Annual General Meetings ("AGM") to ensure that they have a better understanding of the Group's plans and developments for the future.

The AGM and Extraordinary General Meeting, if applicable, are attended by the Directors, external auditors, the Company Secretary and Management. The Group welcomes shareholders' feedback and encourages their participation in sharing ideas and asking questions during such sessions.

Shareholders can visit Broadway's website at www.bw-grp.com for the latest update as well as more information on the Group. The Group also has an officer to facilitate effective communication with shareholders, analysts, fund managers and the media.

## Internal Code on Dealing with Securities

An internal code, which complies with Rule 1207(19) of the Listing Manual of the SGX-ST, with respect to dealings in securities of the Company, has been issued to Directors and officers. The Company's Directors and officers are not allowed to deal in the Company's shares within two weeks before the announcement of its result for each of the first three quarters of the financial year and one month before the announcement of its full year results.

Directors and officers are reminded not to deal in the Company's securities on consideration of a short-term nature.

Directors and officers are required to observe insider trading provisions under the Securities and Future Act at all times even when dealing in the Company's securities within the permitted periods. Directors and officers of the Company are required to report all dealings to the Company.

## Interested Party Transactions

During the financial year ended 31 December 2012, there were no interested party transactions ("IPT") entered with the Group that amounted to more than S$100,000. The Company has also put in place an internal procedure to track IPTs of the Group.

## Material Contracts

There were no material contracts of the Company or its subsidiaries involving the interests of Directors or controlling shareholders.

28 March 2013

# Statistics of Shareholdings
As at 22 March 2013

| | | |
|---|---|---|
| **Number of Equity Securities** | : | **415,678,128** |
| **Class of Equity Securities** | : | **Ordinary shares** |
| **Voting Rights** | : | **One vote per share** |
| **Number of Treasury Shares** | : | **764,000** |

## Distribution of Shareholdings

| Size of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 - 999 | 10 | 0.41 | 2,260 | 0.00 |
| 1,000 - 10,000 | 1,087 | 44.11 | 6,473,518 | 1.56 |
| 10,001 - 1,000,000 | 1,339 | 54.34 | 77,940,245 | 18.75 |
| 1,000,001 and above | 28 | 1.14 | 331,262,105 | 79.69 |
| Total: | **2,464** | **100.00** | **415,678,128** | **100.00** |

## Substantial Shareholders as recorded in the Register of Substantial Shareholders as at 22 March 2013

| Size of Shareholdings | Direct interest | | Deemed interest | |
|---|---|---|---|---|
| | No. of Shares | % | No. of Shares | % |
| Wong Sheung Sze [1] | 73,752,774 | 17.74 | 76,396,000 | 18.38 |
| Lew Syn Pau | 17,728,800 | 4.27 | 21,600,000 | 5.20 |
| Delta Lloyd Asset Management NV [2] | - | - | 29,826,000 | 7.18 |

Notes:

1 Mr Wong Sheung Sze is the beneficial owner of the 76,396,000 ordinary shares held by Hong Leong Finance Nominees Pte Ltd (24,000,000), Philip Securities Pte Ltd (20,000,000) and Citibank Nominees Singapore Pte Ltd (32,396,000).

2 Delta Lloyd Asset Management NV is deemed to be interested in the 29,826,000 ordinary shares held by Delta Lloyd Azie Deelnemingen Fonds N.V. (custodian being KAS Bank K.V.), Delta Lloyd Azie Participation Fund (custodian being Banque de Luxembourg S.A.) and Delta Lloyd L Asian Participation Fund (custodian being Banque de Luxembourg S.A.).

# Statistics of Shareholdings (cont'd)

As at 22 March 2013

## Twenty Largest Shareholders

| No. | Name | No. of Shares | % |
|---|---|---|---|
| 1 | Wong Sheung Sze | 73,752,774 | 17.74 |
| 2 | Citibank Nominees Singapore Pte Ltd | 51,061,574 | 12.28 |
| 3 | Hong Leong Finance Nominees Pte Ltd | 32,220,000 | 7.75 |
| 4 | Phillip Securities Pte Ltd | 23,308,000 | 5.61 |
| 5 | HSBC (Singapore) Nominees Pte Ltd | 21,461,562 | 5.16 |
| 6 | DBS Nominees Pte Ltd | 19,849,446 | 4.78 |
| 7 | Lew Syn Pau | 17,728,800 | 4.27 |
| 8 | Lam Seng Hang Ltd | 15,600,000 | 3.75 |
| 9 | United Overseas Bank Nominees Pte Ltd | 14,490,519 | 3.49 |
| 10 | OCBC Securities Private Ltd | 7,982,876 | 1.92 |
| 11 | CIMB Securities (S'pore) Pte Ltd | 7,548,000 | 1.82 |
| 12 | DBSN Services Pte Ltd | 6,916,507 | 1.66 |
| 13 | Jimmy Tan Ah Keng | 6,000,000 | 1.44 |
| 14 | UOB Kay Hian Pte Ltd | 5,520,000 | 1.33 |
| 15 | Chua Keng Loy | 5,150,000 | 1.24 |
| 16 | Lim & Tan Securities Pte Ltd | 2,743,000 | 0.66 |
| 17 | Maybank Kim Eng Securities Pte Ltd | 2,737,503 | 0.66 |
| 18 | Nam Lee Pressed Metal Industries Limited | 2,326,000 | 0.56 |
| 19 | Kwok Shing Yan | 2,155,444 | 0.52 |
| 20 | Morgan Stanley Asia (S'pore) Securities Pte Ltd | 1,672,336 | 0.40 |
| | Total: | 320,224,341 | 77.04 |

## Public Shareholding

Based on the information available to the Company as at 22 March 2013, approximately 45.37% of the issued ordinary shares of the Company is held by the public and, therefore, Rule 723 of the Listing Manual issued by the SGX-ST is complied with.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Broadway Industrial Group Limited (the "**Company**") will be held at Temasek II, Traders Hotel Singapore, 1A Cuscaden Road, Singapore 249716 on Monday, 29 April 2013 at 4.00 p.m. for the following purposes:

**AS ORDINARY BUSINESS**

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2012 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to Article 109 of the Company's Articles of Association:

   Mr Lee Po Lo @ Lee Khong Kee **(Resolution 2)**

   Mr Eu Yee Ming Richard **(Resolution 3)**

   *Mr Lee will, upon re-election as Director of the Company, remain as a member of the Audit Committee and will not be considered independent.*

   *Mr Eu will, upon re-election as Director of the Company, remain as Chairman of the Nomination and Remuneration Committees and a member of the Audit Committee and will be considered independent.*

3. To re-appoint Mr Lee Chow Soon, a Director of the Company retiring under Section 153(6) of the Companies Act, Chapter 50 of Singapore, to hold office from the date of this Annual General Meeting until the next Annual General Meeting of the Company.

   *Mr Lee will, upon re-appointment as a Director of the Company, remain as Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees and will be considered independent.*

   [See Explanatory Note (i)] **(Resolution 4)**

4. To approve the payment of Directors' fees of S$305,417 for the year ended 31 December 2012 (2011: S$158,334). **(Resolution 5)**

5. To re-appoint Messrs KPMG LLP as Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 6)**

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

**AS SPECIAL BUSINESS**

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

7. **Authority to issue shares**

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

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

   (ii) make or grant offers, agreements or options that might or would require shares to be issued or other transferable rights to subscribe for or purchase shares (collectively, "**Instruments**") including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares; and

   (iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues,

   at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit; and

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

provided always that the aggregate number of shares (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per centum (50%) of the Company's total number of issued shares excluding treasury shares, of which the aggregate number of shares (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) to be issued other than on a pro rata basis to shareholders of the Company does not exceed twenty per centum (20%) of the total number of issued shares excluding treasury shares of the Company, and for the purpose of this Resolution, the total number of issued shares excluding treasury shares shall be the Company's total number of issued shares excluding treasury shares at the time this Resolution is passed, after adjusting for:

(i) new shares arising from the conversion or exercise of convertible securities,

(ii) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this Resolution is passed, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST, and

(iii) any subsequent bonus issue, consolidation or subdivision of the Company's shares, and

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

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

8. **Authority to issue shares under the BIGL Share Option Scheme 2001**

That pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore, the directors of the Company be authorised and empowered to issue from time to time such number of fully-paid shares in the capital of the Company as may be required to be issued pursuant to the exercise of options granted by the Company under the BIGL Share Option Scheme 2001 (the "**Scheme**") before the expiry of the Scheme on 7 November 2011, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Scheme, the BIGL Share Plan and any other applicable share based schemes which the Company may have in place, shall not exceed fifteen per centum (15%) of the total number of issued shares in the capital of the Company, excluding treasury shares, from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

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

9. **Authority to issue shares under the BIGL Share Plan**

That pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore, the directors of the Company be authorised and empowered to offer and grant awards under the BIGL Share Plan (the "**Plan**") and to issue from time to time such number of fully-paid shares in the capital of the Company as may be required to be issued pursuant to the vesting of the awards under the Plan, provided always that the aggregate number of new shares to be issued pursuant to the Plan, the BIGL Share Option Scheme 2001 and any other applicable share based schemes which the Company may have in place, shall not exceed fifteen per centum (15%) of the total number of issued shares in the capital of the Company, excluding treasury shares, from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iv)] **(Resolution 9)**

10. **Proposed Renewal of the Share Buy-Back Mandate**

That:

(a) for the purposes of Sections 76C and 76E of the Companies Act, the exercise by the Directors of all the powers of the Company:

(i) to purchase or otherwise acquire issued ordinary shares ("**Share Buy-Backs**") in the capital of the Company ("**Shares**") not exceeding in aggregate the Maximum Limit (as hereinafter defined), at such price(s) as may be determined by the Directors from time to time up to the Maximum Price (as hereinafter defined), whether by way of:

(aa) on-market Share Buy-Backs (each a "**Market Purchase**") on the SGX-ST; and/or

(bb) off-market Share Buy-Backs (each an "**Off-Market Purchase**") effected otherwise than on the SGX-ST in accordance with any equal access schemes as may be determined or formulated by the Directors as they consider fit, which schemes shall satisfy all the conditions prescribed by the Companies Act,

and otherwise in accordance with all other laws and regulations and rules of the SGX-ST as may for the time being be applicable; and

(ii) to deal with the Shares acquired or purchased by the Company under the Share Buy-Back in accordance with the articles of association of the Company (as amended or modified from time to time), whether to (aa) deem such Shares as cancelled upon acquisition or purchase; (bb) hold such Shares as treasury shares; and/or (cc) otherwise deal with such Shares in the manner provided and to the fullest extent permitted under the Companies Act,

be and is hereby authorised and approved generally and unconditionally, (the "**Share Buy-Back Mandate**");

(b) the authority conferred on the Directors pursuant to the Share Buy-Back Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earlier of:

(i) the date on which the next Annual General Meeting of the Company is held or required by law to be held;

(ii) the date on which the Share Buy-Backs pursuant to the Share Buy-Back Mandate are carried out to the full extent mandated; or

(iii) the date on which the authority conferred by the Share Buy-Back Mandate is revoked or varied by the Company in general meeting;

(c) in this Resolution:

"**Average Closing Price**" means the average of the closing market prices of the Shares over the last five days on which the SGX-ST is open for trading of securities ("**Market Days**") on which the Shares were transacted on the SGX-ST, before the date of the Market Purchase by the Company, or as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted in accordance with the listing rules of the SGX-ST for any corporate action which occurs after the relevant five-day period;

"**date of the making of the offer**" means the date on which the Company makes an offer for an Off-Market Purchase, stating therein the purchase price (which shall not be more than the Maximum Price for an Off-Market Purchase calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase;

"**Maximum Limit**" means that number of Shares representing ten per centum (10%) of the total number of Shares as at the date of passing of this Resolution (excluding any treasury shares that may be held by the Company from time to time); and

"**Maximum Price**" in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commissions, stamp duties, applicable goods and services tax and other related expenses) to be paid for a Share, which shall not exceed:

(i) in the case of a Market Purchase, five per centum (5%) above the Average Closing Price; and

(ii) in the case of an Off-Market Purchase, twenty per centum (20%) above the Average Closing Price; and

(d) the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or he may consider necessary or expedient to give effect to the transactions contemplated and/or authorised by this Resolution.

[See Explanatory Note (v)] **(Resolution 10)**

**(to be voted on by taking a poll)**

By Order of the Board

**Tan San-Ju**
**Chang Ai Ling**
Secretaries

Singapore

12 April 2013

**Explanatory Notes:**

(i) The effect of the Ordinary Resolution 4 proposed in item 3 above, is to re-appoint a Director of the Company who is over 70 years of age.

(ii) The Ordinary Resolution 7 in item 7 above, if passed, will authorise and empower the Directors from the date of the above Annual General Meeting until the next Annual General Meeting to issue shares and convertible securities in the Company up to an amount not exceeding in aggregate fifty per centum (50%) of the total number of issued shares excluding treasury shares of the Company of which the total number of shares and convertible securities issued other than on a pro rata basis to existing shareholders shall not exceed twenty per centum (20%) of the total number of issued shares excluding treasury shares of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. Rule 806(3) of the Listing Manual of the SGX-ST currently provides that the total number of issued shares excluding treasury shares of the Company for this purpose shall be the total number of issued shares excluding treasury shares at the time this Resolution is passed (after adjusting for new shares arising from the conversion or exercise of convertible securities or share options in issue at the time this Resolution is passed and any subsequent bonus issue, consolidation or subdivision of the Company's shares). This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

(iii) The Ordinary Resolution 8 in item 8 above, if passed, will empower the Directors of the Company, from the date of the above Annual General Meeting until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is earlier, to issue shares in the Company pursuant to the exercise of options granted under the Scheme, provided always that the aggregate number of new shares to be issued pursuant to the Scheme, the BIGL Share Plan and any other applicable share based schemes, shall not exceed fifteen per centum (15%) of the total number of issued shares in the capital of the Company, excluding treasury shares, from time to time. Although the Scheme had expired on 7 November 2011, options previously granted will remain valid until the expiry, cancellation or exercise of the options.

(iv) The Ordinary Resolution 9 in item 9 above, if passed, will empower the Directors of the Company, from the date of the above Annual General Meeting until the conclusion of the next Annual General Meeting, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is earlier, to offer and grant awards under the Plan in accordance with the provisions of the Plan and to issue from time to time such number of shares as may be required to be issued pursuant to the vesting of the awards under the Plan subject to the maximum number of shares prescribed under the terms and conditions of the Plan, provided always that the aggregate number of new shares to be issued pursuant to the BIGL Share Option Scheme 2001, the Plan and any other applicable share based schemes, shall not exceed fifteen per centum (15%) of the total number of issued shares in the capital of the Company, excluding treasury shares, from time to time. Resolution 9 is independent from Resolution 8 and the passing of Resolution 9 is not contingent on the passing of Resolution 8.

(v) The Ordinary Resolution 10 in item 10 above is to renew the Share Buy-Back Mandate, which was last approved at the Annual General Meeting of the Company on 27 April 2012.

The Company intends to use its internal sources of funds and external borrowings to finance its purchase or acquisition of its Shares. The amount of financing required for the Company to purchase or acquire its Shares, and the impact on the Company's financial position, cannot be ascertained as at the date of this Notice as these will depend on, *inter alia,* the aggregate number of Shares purchased or acquired and the consideration paid at the relevant time.

Based on the total number of issued Shares as at 28 March 2013 (the "**Latest Practicable Date**"), the purchase by the Company of ten per centum (10%) of its issued Shares (excluding the shares held in treasury) will result in the purchase or acquisition of 41,567,812 Shares.

Assuming that the Company purchases or acquires 41,567,812 Shares at the Maximum Price, the maximum amount of funds required is approximately:

(a) in the case of Market Purchases of Shares, S$14.7 million based on S$0.353 for each Share (being the price equivalent to five per centum (5%) above the Average Closing Price of the Shares traded on the SGX-ST over the last five Market Days preceding the Latest Practicable Date); and

(b) in the case of Off-Market Purchases of Shares, S$16.8 million based on S$0.404 for each Share (being the price equivalent to twenty per centum (20%) above the Average Closing Price of the Shares traded on the SGX-ST over the last five Market Days preceding the Latest Practicable Date).

# Notice of Annual General Meeting (cont'd)

The financial effects of the purchase or acquisition of such Shares by the Company pursuant to the proposed Share Buy-Back Mandate on the audited financial accounts of the Group for the financial year ended 31 December 2012, based on certain assumptions, are set out in Paragraph 2.7 of the Appendix of the annual report of the Company for the financial year ended 31 December 2012 to shareholders of the Company dated 12 April 2013.

Please refer to the Appendix to this Notice of Annual General Meeting for details.

**Notes:**

1. A Member entitled to attend and vote at the Annual General Meeting (the "**Meeting**") is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

**BROADWAY**
INDUSTRIAL GROUP LIMITED
(Company Registration No.: 199405266K)
(Incorporated in the Republic of Singapore)

***(PLEASE SEE NOTES OVERLEAF BEFORE COMPLETING THIS FORM)***

# PROXY FORM

*IMPORTANT:*

1. For investors who have used their CPF monies to buy Broadway Industrial Group Limited's shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

I/We ____________________________________________ *(name of shareholder)*

of ____________________________________________ *(address of shareholder)*

being a member/members of Broadway Industrial Group Limited (the "**Company**"), hereby appoint:

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---|---|---|---|
| | | **No. of Shares** | **%** |
| **Address** | | | |

and/or (delete as appropriate)

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---|---|---|---|
| | | **No. of Shares** | **%** |
| **Address** | | | |

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "**Meeting**") of the Company to be held at Temasek II, Traders Hotel Singapore, 1A Cuscaden Road, Singapore 249716 on Monday, 29 April 2013 at 4.00 p.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

The Chairman of the Meeting will be exercising his right under Article 82 of the Articles of Association of the Company to demand a poll in respect of the resolutions to be put to the vote of members at the Meeting and at any adjournment thereof. Accordingly, each resolution at the Meeting will be voted on by way of poll.

| No. | Resolutions relating to: | For** | Against** |
|---|---|---|---|
| 1 | Directors' Report and Audited Accounts for the year ended 31 December 2012 | | |
| 2 | Re-election of Mr Lee Po Lo @ Lee Khong Kee as a Director | | |
| 3 | Re-election of Mr Eu Yee Ming Richard as a Director | | |
| 4 | Re-appointment of Mr Lee Chow Soon as a Director | | |
| 5 | Approval of Directors' fees amounting to S$305,417 | | |
| 6 | Re-appointment of Messrs KPMG LLP as Auditors | | |
| 7 | Authority to issue new shares | | |
| 8 | Authority to issue shares under the BIGL Share Option Scheme 2001 | | |
| 9 | Authority to issue shares under the BIGL Share Plan | | |
| 10 | Proposed renewal of share buy-back mandate | | |

* Delete where inapplicable

** If you wish to exercise all your votes "For" or "Against" the relevant resolution, please tick (✓) within the relevant box provided. Alternatively, if you wish to exercise your votes for both "For" and "Against" the relevant resolution, please indicate the number of votes as appropriate in the boxes provided.

Dated this _____ day of April 2013

| Total Number of Shares Held | No. of Shares |
|---|---|
| (a) CDP Register | |
| (b) Register of Members | |

______________________________________
***Signature(s) of Shareholder(s)***
***or Common Seal of Corporate Shareholder***

**Notes:**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

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

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623 not less than 48 hours before the time appointed for the Meeting.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

**General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

BROADWAY
INDUSTRIAL GROUP LIMITED

Company Registration No.: 199405266K

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