

IN PURSUIT OF GLOBAL OUTREACH

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A CHANGING LANDSCAPE



Dear Shareholders,

The global economy is a changing landscape driven by a new wave of disruptive technologies and digital innovations. A new economy has emerged. Although businesses of the old economy remain a mainstay of the global economy, sectors' relevance and sustainability will very much be dependent on how they embrace the new wave.

As part of its transformation, our Group has invested in disruptive technologies aligning with the new wave. Gestation of these investments has inevitably taken a toll on our short term performance compounded by concurrent slacks in its core businesses arising from excess production capacity.

The challenges to the global economy and hence the Group's businesses are unprecedented. The Group's investments in disruptive technologies from its reserves without any borrowings, are emerging from gestation. A few are being commercialised. The world is our market for these products. We have, in the last 2 years, opened new markets in the USA, Europe, Australia, India and China. This has set us to expand our global outreach.

We embrace continuous innovations. We recently acquired an automation company specialised in industrial controls and system engineering. The synergy achieved will enable the Group to scale up to higher end automation with potentials to build up capabilities in the space of Internet of things, aligning ourselves with Industrial 4.0 Revolution, a pervading force that enables smart cities, smart factories and smart homes. Our offshore marine sector has acquired a dual fuel technology company. This technology will focus strongly on the offshore and marine sector enabling us to foray into the clean energy space as mandated by rules set by the International Maritime Organisation in 2008 that will come into full force in January 2020. All new and old vessels are required to achieve sulphur emission to below 0.5% (mass by mass) from the

current 3.5%. Complementing our existing offshore marine business, this enables horizontal expansion and expands our value chain to the industry.

It is gratifying that our transformation has begun to see results which are gaining traction. Our business landscape is changing. We are confident that these decisions have put the Group in a sustainable footing to stay relevant with the changing global economic landscape.

Our investments in technology are ripe to unlock their value. A subsidiary, Zicom Innovations Pte Ltd, has been formed to place all our technology investments together with our precision engineering subsidiary under one cluster in preparation of an Initial Public Offer. A pre-IPO funding is being sought to scale up the businesses in this sector. We target for the IPO to take place over the next 12-18 months.

Barring unforeseen circumstances, your Board is hopeful that the Group's directions will pay dividends in the near future.

I take this opportunity to thank all our management and employees for embracing the Group's new directions and for working cohesively to achieve our objectives and the Board for their support and guidance for all these initiatives. I wish to thank our shareholders for their forbearance and support.

G L Sim
Chairman

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS



GIOK LAK SIM, FCPA
Chairman and Group Managing Director,
Age 71

Experience and Expertise

Appointed to the Board on 5 April 1995. Chairman and Managing Director of Zicom Group Limited and Executive Chairman of all its subsidiaries. Experienced in public accounting, corporate development, financial and industrial management as well as international trade.

Chairman of Grant Appeal Advisory Panel, SPRING Singapore
Chairman of Growth Policy Advisory Committee, SPRING Singapore
Member of Strategic Advisory Panel, Diagnostic Development Hub, A*Star EPTL
Member of Incubation Advisory Board, Singapore National Eye Centre
Member, Board of Governors, UOB-SMU Asian Enterprise Institute
Singapore Ernst & Young Entrepreneur of the Year (Industrial Products), 2008

Other current directorships and former directorships in last 3 years

Board Member of SPRING Singapore (appointed on 1 April 2014)

Special responsibilities

Member of Nomination and Remuneration Committee
Executive Chairman of all subsidiaries
Chairman of Curiox Biosystems Pte Ltd
Chairman of HistolIndex Pte Ltd
Director of BELKIN Laser Ltd
Chairman of Endofotonics Pte Ltd
Director of Pellucid Networks Pte Ltd

Relevant interests in shares and options as at date of signing the Directors' Report

94,753,137 ordinary shares



KOK HWEЕ SIM, BSc, MSc
Executive Director, Age 39

Experience and expertise

Mr Kok Hwee Sim was appointed to the Board on 21 November 2007. As Executive Director of the Group, he focuses on developing capabilities and infrastructure to support the expansion of the Group's investments in the technology cluster. Mr Sim is also the Chief Executive Officer of Zicom MedTacc Private Limited, a medical technology accelerator and investment company. Mr Sim graduated with a Bachelor's degree in Industrial Engineering and Operations Research from the University of Michigan with Honours (Magna Cum Laude) and a Master's degree in Financial Engineering from Columbia University, New York. He is the eldest son of the Chairman and Managing Director, Mr G L Sim and Director of substantial shareholder, SNS Holdings Pte Ltd.

Other current directorships and former directorships in last 3 years

None

Special responsibilities

CEO of Biobot Surgical Pte Ltd
CEO of Zicom MedTacc Private Limited
Director of Curiox Biosystems Pte Ltd
Director of HistolIndex Pte Ltd
Director of BELKIN Laser Ltd
Director of Endofotonics Pte Ltd
Director of Pellucid Networks Pte Ltd

Relevant interests in shares and options as at date of signing the Directors' Report

1,538,180 ordinary shares and 300,000 options



KOK YEW SIM, BSc
Executive Director, Age 37

Experience and expertise

First appointed to the Board as Alternate Director to Mr Kok Hwee Sim on 5 July 2010 and made an Executive Director on 25 September 2014. Mr Kok Yew Sim is a Director and Chief Executive Officer of Sys-Mac Automation Engineering Pte Ltd (Sys-Mac) and is responsible for Sys-Mac's growth strategies, overall administration and management of its business and operations. He is also the Deputy Chairman of iPtec Pte Ltd, the medtech translation subsidiary, and a Director of Zicom MedTacc Private Limited, a medical technology accelerator and investment company. He will be instrumental in building the Group's capabilities to support medical technologies. Mr Sim graduated with a Bachelor's degree in Electrical and Electronics Engineering from the University of Michigan with Honours (Summa Cum Laude). He is the second son of the Chairman and Managing Director, Mr G L Sim and Director of substantial shareholder, SNS Holdings Pte Ltd.

Other current directorships and former directorships in last 3 years

None

Special responsibilities

CEO of Sys-Mac Automation Engineering Pte Ltd and its subsidiaries
Deputy Chairman of iPtec Pte Ltd
Director of Curiox Biosystems Pte Ltd

Relevant interests in shares and options as at date of signing the Directors' Report

1,350,253 ordinary shares and 300,000 options

BOARD OF DIRECTORS

INDEPENDENT DIRECTORS



YIAN POH LIM, BSc, MSc
Independent Director, Age 71

Experience and expertise

Appointed to the Board on 24 July 2006. Mr Yian Poh Lim has more than 20 years of extensive experience in the banking and finance industry. In 1993, he set up Yian Poh Associates, a financial consultancy and investment firm. Since 2000, Mr Lim has been an Honorary Commercial Advisor to The Administrative Committee of Jiaxing Economic Development Zone, China and was recently appointed as the Expert Consultant of Suzhou Vocational University. He is also a member of the advisory panel of the Singapore Food Manufacturers' Association.

Other current directorships and former directorships in last 3 years

Independent Director of Casa Holdings Limited (appointed 4 November 2008)
Lead Independent Director of TTJ Holdings Limited (appointed 5 July 1996)

Special responsibilities

Chairman of Nomination and Remuneration Committee
Member of Audit Committee
Non-Executive Director of Zicom Holdings Private Limited

Relevant interests in shares and options as at date of signing the Directors' Report

488,000 ordinary shares



FRANK LEONG YEE YEW, MBA, FCA (ENGLAND & WALES), FCA (SINGAPORE)
Independent Director, Age 74

Experience and expertise

Appointed to the Board on 24 July 2006. Extensive experience in auditing, financial management and corporate secretarial work, having practised as a partner in an audit firm and worked as a company secretary, finance manager and financial controller in a leading property development company and involved in acquisitions and major developments. Mr Leong is also the Honorary Treasurer of The Children's Charities Association of Singapore.

Other current directorships and former directorships in last 3 years

Independent Director of TTJ Holdings Limited (appointed 11 January 2010)

Special responsibilities

Member of Nomination and Remuneration Committee
Member of Audit Committee
Non-Executive Director of Zicom Holdings Private Limited

Relevant interests in shares and options as at date of signing the Directors' Report

624,364 ordinary shares



IAN ROBERT MILLARD, FCA, FAICD
Independent Director, Age 78

Experience and expertise

Appointed to the Board on 23 November 2006. Extensive experience in public accounting and corporate secretarial work. Fellow of the Institute of Chartered Accountants with 30 years as a partner in major accounting firms in Queensland and a Fellow of the Australian Institute of Company Directors.

Other current directorships and former directorships in last 3 years

None

Special responsibilities

Chairman of Audit Committee
Non-Executive Director of Cesco Australia Limited

Relevant interests in shares and options as at date of signing the Directors' Report

592,250 ordinary shares



SHAW PAO SZE
Independent Director, Age 73

Experience and expertise

Appointed to the Board on 19 February 2010. Mr Shaw Pao Sze holds a Master Foreign-Going Certificate of Competency and has extensive experiences in maritime industry from managing liner and ship chartering services, corporate planning in one of the world's largest shipping lines and consultancy services for transport engineering, maritime and logistics planning for infrastructure projects.

Other current directorships and former directorships in last 3 years

Synergy Metals Ltd (Australia) (appointed 15 October 2010)

Special responsibilities

None

Relevant interests in shares and options as at date of signing the Directors' Report

NIL

COMPANY SECRETARIES



LIM BEE CHUN, JENNY, FCCA
Joint Company Secretary, Age 44

Experience and expertise

Ms Jenny Lim has been the Group's Financial Controller since 2005. She is a Fellow of the Association of Chartered Certified Accountants from the United Kingdom since 1998. Ms Lim has over 10 years of audit and tax experience in an international public accounting firm prior to joining the Group.

Other current directorships and former directorships in last 3 years

None

Special responsibilities

Director of Zicom Private Limited
Director of Zicom MedTacc Private Limited
Company Secretary of Zicom Holdings Private Limited
Joint Company Secretary of Curiox Biosystems Pte Ltd

Relevant interests in shares and options as at date of signing the Directors' Report

944,563 ordinary shares and 200,000 options



**IGOR SUSHKO (NICK),
MBA, FCPA, BBus, BSc**
Joint Company Secretary, Age 51

Experience and expertise

Mr Sushko joined the Group in April 2017 as the Finance Manager of Cesco Australia Limited. He holds a Master's degree in Business Administration and has been a Fellow of Certified Practising Accountants, Australia since 2015. Mr Sushko has more than 20 years of experience in financial management, treasury and international trade in both publicly and privately-owned businesses.

Other current directorships and former directorships in last 3 years

None

Special responsibilities

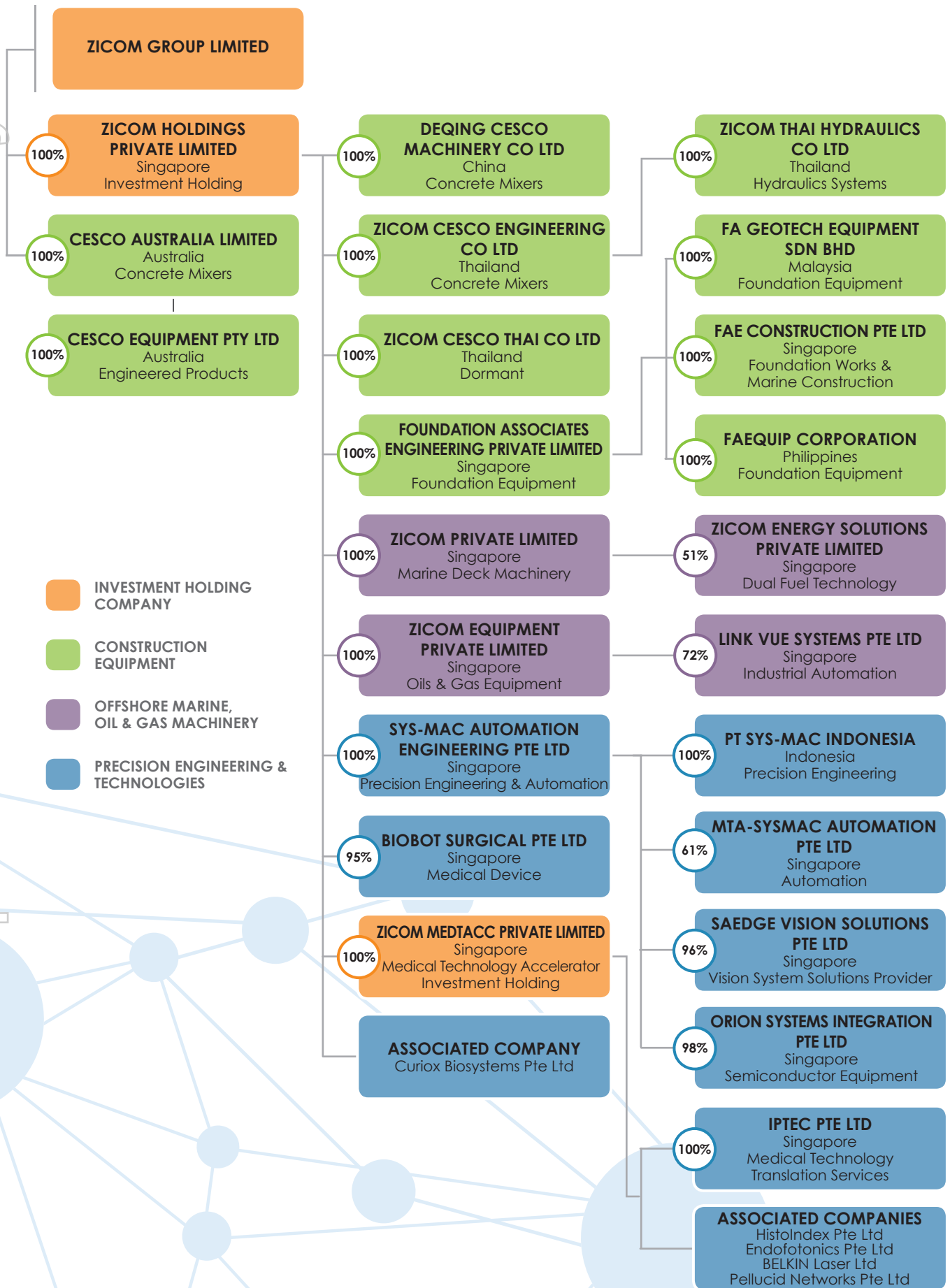
Company Secretary of Cesco Australia Limited and Cesco Equipment Pty Limited

Relevant interests in shares and options as at date of signing the Directors' Report

NIL

CORPORATE CHART

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KEY MANAGEMENT

SINGAPORE

ZICOM PRIVATE LIMITED

JOINT MANAGING DIRECTORS

Juat Lim Sim

Hung Seah Tang

EXECUTIVE DIRECTORS

Juat Khiang Sim

Hong Jun Zhang

Jenny Lim Bee Chun

ZICOM EQUIPMENT PRIVATE LIMITED

MANAGING DIRECTOR

Rashed Choudhury

FOUNDATION ASSOCIATES ENGINEERING PRIVATE LIMITED

MANAGING DIRECTOR

Peck Hua Ng

EXECUTIVE DIRECTOR

Teck Meng Liew

FAE CONSTRUCTION PTE LTD

EXECUTIVE DIRECTORS

Peck Hua Ng

Teck Meng Liew

SYS-MAC AUTOMATION ENGINEERING PTE LTD

MANAGING DIRECTOR

Juat Koon Sim

EXECUTIVE DIRECTORS

Kok Yew Sim - CEO

David Loh Chin Woon

Tony Low Boon Koon

MTA-SYSMAC AUTOMATION PTE LTD

MANAGING DIRECTOR

Juat Koon Sim

EXECUTIVE DIRECTORS

Kok Yew Sim - CEO

Tony Low Boon Koon

Bobby Owen Archer

Bryan Raymond Root

SAEDGE VISION SOLUTIONS PTE LTD

EXECUTIVE DIRECTORS

Kok Yew Sim - CEO

Bing Chiang Wong

ORION SYSTEMS INTEGRATION PTE LTD

EXECUTIVE DIRECTORS

Amlan Sen

Chin Guan Khaw

Siew Sarn Lau

Kok Yew Sim

BIOBOT SURGICAL PTE LTD

EXECUTIVE DIRECTORS

Kok Hwee Sim - CEO

Kok Yew Sim

IPTEC PTE LTD

EXECUTIVE DIRECTORS

Kok Hwee Sim

Kok Yew Sim

ZICOM MEDTACC PRIVATE LIMITED

EXECUTIVE DIRECTORS

Kok Hwee Sim - CEO

Kok Yew Sim

Peter Cheng Tim Kum

Thong Yuen Poon

LINK VUE SYSTEMS PTE LTD

MANAGING DIRECTOR

Gandhi Vidyut Sooryakant

ZICOM ENERGY SOLUTIONS PRIVATE LIMITED

MANAGING DIRECTOR

Boon Khian Teo

EXECUTIVE DIRECTOR

Paul Sayan

MALAYSIA

FA GEOTECH EQUIPMENT SDN BHD

MANAGING DIRECTOR

Peck Hua Ng

EXECUTIVE DIRECTOR

Teck Meng Liew

AUSTRALIA

CESCO AUSTRALIA LIMITED

MANAGING DIRECTOR

Gary Webster

CESCO EQUIPMENT PTY LTD

MANAGING DIRECTOR

Gary Webster

EXECUTIVE DIRECTORS

Rick Pearce

Kenny Teh

THAILAND

ZICOM CESCO ENGINEERING CO LTD

MANAGING DIRECTOR

Sammy Ng Siong Teck

DEPUTY MANAGING DIRECTOR

Saowaluke Phongchok

ZICOM THAI HYDRAULICS CO LTD

MANAGING DIRECTOR

Sammy Ng Siong Teck

DEPUTY MANAGING DIRECTOR

Saowaluke Phongchok

INDONESIA

PT SYS-MAC INDONESIA

MANAGING DIRECTOR

Juat Koon Sim

EXECUTIVE DIRECTORS

Kok Yew Sim

David Loh Chin Woon

Tony Low Boon Koon

CHINA

DEQING CESCO MACHINERY CO LTD

MANAGING DIRECTOR

Chin Ming Tan

PHILIPPINES

FAEQUIP CORPORATION

EXECUTIVE DIRECTORS

Teck Meng Liew - CEO

Peck Hua Ng

DIRECTORS' REPORT 2017

Your directors present their report on Zicom Group Limited (the "Company") and its subsidiaries (collectively, the "Group" or "consolidated entity") for the year ended 30 June 2017.

Directors

The following persons were directors of Zicom Group Limited during the financial year and up to the date of this report. Directors were in office for this entire period.

| | |
|-----------------|----------------------------------|
| Mr. G L Sim | (Chairman and Managing Director) |
| Mr. K H Sim | (Executive Director) |
| Mr. K Y Sim | (Executive Director) |
| Mr. Y P Lim | (Independent) |
| Mr. F Leong | (Independent) |
| Mr. I R Millard | (Independent) |
| Mr. S P Sze | (Independent) |

Details of Directors' qualifications, experience, other current directorship and responsibilities are included in the "Board of Directors" section within the annual report.

Principal Activities

The Group's principal activities comprise the manufacturing of deck machinery, offshore structures, gas metering stations, gas processing plants, foundation equipment, concrete mixers and precision engineered machinery, rental of foundation equipment, supply of medtech equipment and products, medtech translation services and services to the offshore marine, oil and gas, construction, electronics, biomedical and agriculture industries.

Consolidated Results

The Group recorded the following consolidated results during the year as compared with those of previous year:-

| Key Financials | Change % | Year ended 30 June 17 S\$ million | Year ended 30 June 16 S\$ million |
|---|----------|-----------------------------------|-----------------------------------|
| Total revenue | -18.3 | 94.52 | 115.66 |
| Net loss after tax attributable to equity holders of the Parent | +121.1 | (4.62) | (2.09) |

The Group's cash balances remain healthy. As at 30 June 2017, the Group's total cash and bank balances were S\$18.59m as compared with S\$20.56m as at 30 June 2016.

Dividends

In view of the Group's performance, it has decided not to pay any final dividend this year. In prior year, a final dividend of 0.20 Australian cents per share was paid. The Group has decided to conserve cash this year to accelerate its current industrial transformation. We are hopeful to be able to resume our dividend payment in the next financial year.

DIRECTORS' REPORT 2017

Review of Operations

The Group's consolidated revenue for the full year is S\$94.52m as compared with S\$115.66m in the previous year, a decrease of 18.3%. The Group's full year net consolidated loss after tax attributable to members to 30 June 2017 is S\$4.62m as compared with S\$2.09m in the previous year, an increase of 121.1%.

Loss per share for the year is Singapore 2.13 cents compared to Singapore 0.96 cents in the previous year, an increase of Singapore 1.17 cents.

Net tangible assets per share decreased from Singapore 32.45 cents to 30.28 cents per share.

Return on equity, based on average of the opening and closing equity, for the year was -5.6% as compared to -2.4% in 2016.

The average rates for currency translation for transactions and cash flows are A\$1 to S\$1.0498 (2016: S\$1.0106) for the year ended 30 June 2017 and balances A\$1 to S\$1.0570 (2016: S\$1.0026) as at 30 June 2017, reflecting a strengthened A\$.

The world's economic landscape is undergoing a significant change. Rapid digital disruptions are being compounded by new geo-political developments in transforming economic and business environment in an unprecedented way. The results for the full year have not escaped the impact of these changes as well as the consolidating effect of over-supply. As a result, price pressures across board had impacted on profit margins during the year, notwithstanding general overheads had been reduced.

The main segments that were severely affected were the offshore marine, oil and gas sector, the construction sector as well as the precision engineering sector, our existing core businesses. Gestation costs of our technology investments incurred on product development have greatly scaled down. The current costs are mainly incurred for global market development to accelerate commercialisation. However such costs have also impacted the results.

The offshore marine sector is expected to continue to be in a slump. During the year we focused to successfully complete 3 turnkey projects and at the same strengthened our capabilities for increased gas projects in the pipeline. We expect these projects to be awarded in this coming financial year. As a result we expect to improve on this sector's consolidated results. The construction sector had been subdued but signs of improvements have emerged. The precision engineering sector suffered from an overhang of prior years' slack in demand. The situation has been improving and demand for its services now resurged. A few of our technology investments have begun to generate revenue and are expected to break-even within the coming financial year, defining their growth phase.

The Group has entered into an inflection point of its restructuring phase. Several years ago, in recognition of the rapid digital and technological disruption to the world's economy it embarked on an industry transformation of its businesses. The Group aims on industries for the future.

The Group's first diversification was technologies on semiconductor and medical equipment. It has also begun to look into clean energy and waste control technologies. These are focused on high end niche areas and in industries for the future. At the same time, established core businesses will be strengthened with innovations to stay relevant.

DIRECTORS' REPORT 2017

We have begun to restructure and realign our business units so as to enable management to refocus. As a first step, the precision engineering and technology cluster will be grouped for a spin-off in an Initial Public Offer. Work on this has commenced and announcements will be made at appropriate intervals to keep shareholders informed.

Segmental Revenue

The following is an analysis of the segmental revenue:-

| Segmental Revenue | Change % | Year ended 30 June 17 S\$ million | Year ended 30 June 16 S\$ million |
|--------------------------------------|----------|--------------------------------------|--------------------------------------|
| Offshore Marine, Oil & Gas Machinery | - 46.8 | 31.54 | 59.26 |
| Construction Equipment | - 24.8 | 31.05 | 41.27 |
| Precision Engineering & Technologies | + 132.1 | 30.19 | 13.01 |
| Industrial & Mobile Hydraulics | - 12.9 | 2.02 | 2.32 |

Offshore Marine, Oil & Gas Machinery

Demand for offshore marine, oil and gas machinery decreased by 46.8% in the full year as compared with the previous year. The geo-political factors affecting the offshore oil market have become increasingly more uncertain and volatile. There is a surplus fleet of vessels of all denominations world-wide. Production capacity is in excess. As a result global capital expenditure has been severely curtailed. The situation is expected to last at least 2-3 years longer, before it can hit bottom.

We are hopeful that demand for land-based gas processing activities remains strong particularly in the market in which we operate. The demand is generated by the country's infrastructural needs. We are hopeful that projects will be materialised in the coming year.

Barring no unforeseen factors, this sector is expected to perform better in the coming year.

Construction Equipment

The construction sector in Singapore, the main market for our foundation equipment had been weak due to surplus equipment from completion of several infrastructure projects and scaled down housing construction. Revenue from sales and rental of construction equipment decreased by 24.8% in the full year as compared with the previous year.

Demand for sales and rental of foundation equipment from regional markets in Malaysia, Thailand, Indonesia and the Philippines has however increased. More marketing focus is now being placed on these countries.

Demand for construction equipment including concrete mixers in Australia and Thailand were stronger but margins were impacted by competition and currency fluctuations. We expect with increase in infrastructure developments, demand will remain strong.

DIRECTORS' REPORT 2017

Precision Engineering & Technologies

Precision Engineering

Demand for the precision engineering sector increased by 132.1% in the full year as compared with the previous year. The semiconductor market has been recovering but the industrial automation market was somewhat affected by the global uncertainty, thus depressing the overall margin. We are hopeful that demand for industrial automation projects which has, in recent months resurged, will maintain their momentum over the next 2 years. Coupled with newly created demand in semiconductor equipment and sales of our medical technology equipment, the results for this sector are expected to strengthen in the coming year.

Semiconductor Technology

Our technology has been fully validated by a world's leading semiconductor chip assembly factory. Following the breakthrough, we have been engaged by several customers to evaluate our machine with a view of adoption. At this stage we are hopeful that more orders would materialise during the coming year and our market base will broaden and strengthen. Our product has been well proven to meet the current industry's demand for compact high power computing chips that require very stringent accuracy and miniaturisation. We have proven to stay ahead of the curve over other more established competitors.

Medtech Technology

Our Group's medtech investments on surgical robots, liver fibrosis imaging machines, drug development instrumentation and ophthalmology have begun to generate revenue. We are hopeful that these investments can break-even in the next 12 months and embark on their exponential growth. These technologies together with our precision engineering sector are being grouped for a potential spin-off, the process of which has commenced.

Industrial & Mobile Hydraulics

This sector is made up of supply of hydraulic system drives and hydraulic services in support of our general core business activities in hydraulic engineering. There has not been any significant variation in this segment.

Financial Position

The Group's financial position remains strong:-

| Classification | Decrease S\$ million | As at 30 June 17 S\$ million | As at 30 June 16 S\$ million |
|--------------------------|-------------------------|---------------------------------|---------------------------------|
| Net assets | 4.62 | 80.47 | 85.09 |
| Net working capital | 9.11 | 32.23 | 41.34 |
| Cash in hand and at bank | 1.97 | 18.59 | 20.56 |

Gearing Ratio

The Group's gearing ratio is 0% at the same ratio as for the year ended 30 June 2016 as cash and cash equivalents exceeded interest-bearing liabilities. Gearing ratio has been arrived at by dividing our interest-bearing liabilities less cash and cash equivalents over total capital.

DIRECTORS' REPORT 2017

Return per Share

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

| Classification | Decrease Singapore Cents | 2017 Singapore Cents | 2016 Singapore Cents |
|--------------------|-----------------------------|-------------------------|-------------------------|
| Earnings per share | 1.17 | (2.13) | (0.96) |

The weighted average shares used to compute basic earnings per share are 217,140,780 for this year and 216,702,764 shares for the previous year.

| Classification | Decrease Singapore Cents | As at 30 June 17 Singapore Cents | As at 30 June 16 Singapore Cents |
|-------------------------------|-----------------------------|-------------------------------------|-------------------------------------|
| Net tangible assets per share | 2.17 | 30.28 | 32.45 |

Net tangible assets per share has decreased due to the Group's operational loss for the year offset by the translation gain arising from the appreciation of functional currencies of certain foreign operations.

Capital Expenditure

For the year ending 30 June 2018, the Group does not plan to invest in any capital equipment.

Confirmed Orders

We have a total of S\$21.3m (30 June 2016: S\$48.4m) outstanding confirmed orders in hand on 30 June 2017. A breakdown of these outstanding confirmed orders is as follows:-

| | S\$ m |
|--------------------------------------|-------------|
| Offshore Marine, Oil & Gas Machinery | 3.2 |
| Construction Equipment | 6.9 |
| Precision Engineering & Technologies | 11.0 |
| Industrial & Mobile Hydraulics | 0.2 |
| Total | <u>21.3</u> |

These outstanding orders are scheduled for delivery in the financial year 2018. Prospects for ongoing orders are strengthening.

Prospects

The global economic environment continues to be challenging and has become increasingly uncertain, being compounded by unprecedented geo-political factors. Notwithstanding that, global recovery is somewhat evident although it is segmental and not across board. It is the Group's policy to take a long term view of the global economic directions, and pursue its directions regardless of transient economic or political factors. It has, and will continue to focus on technology and products for the future industry. After several years of transformation the Group is confident that it is travelling in the right direction.

The Group's financial position remains strong with virtually no gearing. We are confident to maintain this position such that we can continue to take advantage of opportunities to complete our industrial transformation road map to be sustainable.

DIRECTORS' REPORT 2017

Subsequent Events after the Balance Sheet Date

Investment in Pellucid Networks Pte Ltd

On 8 August 2017, Zicom MedTacc Private Limited injected S\$400,000 into Pellucid Networks Pte Ltd ("Pellucid") and increased its equity interest in Pellucid to 11.51%.

Investment in Curiox Biosystems Pte Ltd

On 8 September 2017, 138,000 preference shares were allotted to Zicom Holdings Private Limited for a cash consideration of S\$276,000 pursuant to the remaining tranche of the non-renounceable rights issue. As a result of this allotment, the Group's interest in Curiox decreased to 72.75%.

Investment in Link Vue Systems Pte Ltd

On 26 September 2017, Zicom Equipment Private Limited, a wholly-owned subsidiary, has acquired 71.87% equity interest in Link Vue Systems Pte Ltd, an automation company specialised in industrial controls and system engineering, for a cash consideration of S\$189,000.

Investment in Zicom Energy Solutions Private Limited

On 21 September 2017, Zicom Private Limited, a wholly-owned subsidiary, entered into an investment agreement to acquire 51% equity interest in Zicom Energy Solutions Private Limited, a dual fuel technology company, for a cash consideration of S\$510,000, payable in 2 equal tranches. Completion for the first tranche is targeted to be in October 2017 with the second tranche due within 90 days from the first completion date.

Litigation

On 30 August 2017, Luminex Corporation which is based in the United States ("Luminex") has filed an Original Complaint against Curiox Biosystems Inc ("Curiox"), a subsidiary of Curiox Biosystems Pte Ltd which in turn is an associate of Zicom Holdings Private Limited, in the United States District Court, Western District of Texas (Austin Division).

Luminex is seeking, amongst others, orders enjoining Curiox from "falsely or misleadingly advertising or promoting Curiox's products" and making "false and misleading statements about the performance of Luminex's systems" and to seek damages.

Curiox has retained attorneys in the Boston, USA law firm of Morgan, Lewis & Bockius LLP as legal counsel. Curiox denies all of Luminex's claims and will vigorously defend itself against Luminex's allegations. Curiox will also consider potential counterclaims it may have against Luminex.

Environmental Regulations

The Group is subject to environmental regulations under State and Federal legislations. The Group holds environmental licences for its manufacturing site in Brisbane. No significant material environmental incidents occurred during the year.

DIRECTORS' REPORT 2017

Meetings of directors

The number of meetings of the Company's board of directors and of each board committee held since the last Annual General Meeting, and the number of meetings attended by each director were:

Meetings of Committees

| | Full meetings of directors | | Audit | | Nomination & Remuneration | |
|---------------------|----------------------------|---|-------|---|---------------------------|---|
| | A | B | A | B | A | B |
| Giok Lak Sim | 4 | 4 | - | - | 1 | 1 |
| Kok Hwee Sim | 4 | 4 | - | - | - | - |
| Kok Yew Sim | 3 | 4 | - | - | - | - |
| Yian Poh Lim | 4 | 4 | 3 | 3 | 1 | 1 |
| Frank Leong Yee Yew | 4 | 4 | 3 | 3 | 1 | 1 |
| Ian R Millard | 3 | 4 | 3 | 3 | - | - |
| Shaw Pao Sze | 4 | 4 | - | - | - | - |

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

Insurance or indemnification of officers

During the financial year, Zicom Group Limited paid a premium of A\$8,714 to insure against liabilities of the directors and officers of the reporting entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against directors or officers in their capacities as officers of the reporting entity.

The policy also provides for certain statutory fines incurred by the reporting entity or officers, and protection for claims made alleging a breach of professional duty arising out of an act, error or omission of the officers of the reporting entity.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of its terms of its audit engagement agreement against claims by third parties arising from the audit. No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

Retirement, election and continuation in office of directors

Messrs Shaw Pao Sze and Kok Yew Sim retire by rotation and being eligible, offer themselves for re-election.

Directors' relevant interests in Zicom Group Limited

In accordance with S300(11) of the *Corporations Act 2001*, the relevant interests of the directors in the shares and options of Zicom Group Limited as at the date of this report are unchanged to those disclosed within the remuneration report as at 30 June 2017.

DIRECTORS' REPORT 2017

Remuneration report (Audited)

This remuneration report outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. This information has been audited as required by section 308(3C) of the Act.

Key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Parent. Details of the KMP are set out in the following tables:

(i) Directors

| | |
|-------------|----------------------------------|
| G L Sim | (Chairman and Managing Director) |
| K H Sim | (Executive Director) |
| K Y Sim | (Executive Director) |
| Y P Lim | (Independent Director) |
| F Leong | (Independent Director) |
| I R Millard | (Independent Director) |
| S P Sze | (Independent Director) |

(ii) Senior Executives

| | |
|----------|---|
| J L Sim | (Joint Managing Director of Zicom Private Limited and Director of Zicom Holdings Private Limited) |
| H S Tang | (Joint Managing Director of Zicom Private Limited and Director of Zicom Holdings Private Limited) |

There were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Service Agreements
- C Details of remuneration

A Principles used to determine the nature and amount of remuneration

A combined Nomination and Remuneration Committee has been formed. The members of the Nomination and Remuneration Committee comprise of Mr Y P Lim as Chairman with Mr Frank Leong and Mr G L Sim as members. The Nomination and Remuneration Committee had approved the Service Agreement of the Group Managing Director, Mr G L Sim and this was subsequently ratified by the full board.

The key principle of Zicom Group Limited's remuneration policy is to ensure remuneration is set at levels that will attract, motivate, reward and retain personnel to improve business results, having regard to the Company's financial performance and financial position.

DIRECTORS' REPORT 2017

Non-Executive Directors

Remuneration of Non-Executive Directors is determined by the directors within the maximum amount approved by the shareholders. Each Non-Executive Director receives a base fee of A\$25,000 for being a director of the Group. An additional fee of A\$2,000 is paid for each Board Committee of which a Non-Executive Director sits and A\$5,000 if the Director is a Chair of a Board Committee. The payment of additional fees for serving on committees recognises the additional time commitment and responsibilities of the Non-Executive Directors who serve on one or more sub-committees. There is also an attendance fee of A\$1,000 for each meeting attended by the Non-Executive Director.

Non-Executive Directors are eligible to participate in the Zicom Employee Share and Option Plan ("ZESOP"). The Board considers that there should be an appropriate mix of remuneration comprising cash and securities for all Directors to link the remuneration of the Directors to the financial performance of the Company and to align the interests of shareholders and all Directors. No options were granted to Non-Executive Directors during the financial year and none are proposed for consideration at the 2017 Annual General Meeting.

The Board recommends that total directors' fees for Non-Executive Directors for the financial year ending 30 June 2018 be fixed at a maximum sum of A\$150,000 (S\$159,000) at the same level as the previous year.

Executive directors and senior executives

All remuneration paid to executive directors and senior executives comprises the following components:

- Base pay and benefits;
- Short term incentives;
- Other remuneration such as superannuation; and
- Participation in the Zicom Employee Share and Option Plan.

Base pay

The level of base pay is set so as to provide a level of remuneration which is appropriate to the position and is competitive in the market. The remuneration of the executive directors is reviewed annually by the Board and the remuneration of senior executives is reviewed annually or on promotion by the managing director(s).

Benefits

Senior executives receive benefits including health and disability insurance and car allowances.

Short term incentives

The objective of short term incentives is to reward the senior executives of the Group with performance bonus tied to a minimum profit threshold of the group companies. Such bonuses are paid within 90 days after the year end and completion of audit. The minimum profit threshold is the lower of S\$500,000 or 15% of total shareholders' funds outstanding at the end of the previous financial year.

DIRECTORS' REPORT 2017

B Service Agreements

Group Managing Director

The Group Managing Director, Mr G L Sim is directly employed by Zicom Holdings Private Limited ("ZHPL") and has renewed his service agreement with ZHPL for another 5 years with effect from 1 July 2016. The group and Mr Sim are required to give each other at least 6 months' notice in the termination of the service agreement. Under the terms of his service agreement, Mr Sim continues to be appointed as the Zicom Group Limited ("ZGL") Group Managing Director and Chairman as well as the Executive Chairman of all the operating subsidiaries.

Mr Sim is entitled to an annual review of his monthly salary if the company's results exceed 15% return on shareholders' funds as at the end of that financial year. Mr Sim has frozen his monthly salary since 2007. Mr Sim will continue to draw the monthly salary at the 2007 level for the next 5 years from 1 July 2016 and waive all salary increments. Apart from this, all other benefits, terms and conditions in his service agreement remain unchanged.

Mr Sim is paid a monthly salary and a car allowance. Mr Sim is entitled to a minimum performance bonus of 5% but not exceeding 10% of the pre-tax consolidated profits of ZHPL upon achieving agreed minimum profit targets, being the only criterion for his entitlement. Mr Sim is entitled to convert part of his performance bonus up to 50% of the amount payable into shares of ZGL at the average of the closing prices of the last 5 trading days before the end of the relevant financial year. However, such entitlement must be exercised within 7 working days after the financial year end. For the financial year just ended, Mr Sim was not entitled to any bonus as the minimum profit target was not achieved.

Mr Sim is not paid any salary or fees by ZGL, Cescos Australia Limited ("CAL") or any other group companies. In the event CAL achieves the minimum pre-tax profits, Mr Sim will be paid a bonus not exceeding 5% of CAL's profits. During the financial year just ended, Mr Sim was not paid any bonus by CAL as the profit target was not achieved.

Senior Executives (directors of group companies)

Senior executives in key decision making are employed under rolling contracts. The company and these senior executives are required to give each other 6 months' notice to terminate the service contracts. The senior executives are entitled to a monthly salary and a car allowance. Each year, each of the subsidiary companies allocates 10% of their pre-tax profits upon achieving agreed minimum profit targets, being the only criterion for allocation of bonus to its eligible executives, as a "bonus pool". The maximum entitlement capped for eligible executives ranges from 2.5% to 5% of the pre-tax profits. Each year, the Nomination and Remuneration Committee will decide the proportion payable to each of these eligible executives based on the number of eligible executives entitled to the pool and any recommendation by management to reward any outstanding senior executives who are otherwise not eligible contractually, to be specially rewarded. The decisions made by the Committee are deemed to be 100% of their entitlement for the respective eligible executive for the relevant financial year.

These senior executives are also entitled to convert part of their performance bonus up to 50% of the amount payable into shares in ZGL at the average of the closing prices of the last 5 trading days before the end of the relevant financial year. However, such entitlement must be exercised within 7 working days after the financial year end. For the financial year just ended, none of the executives exercised the option to convert part of their performance bonus into ZGL shares.

DIRECTORS' REPORT 2017

Zicom Employee Share and Option Plan

Options are granted under the Zicom Employee Share and Option Plan ("ZESOP") which was approved by shareholders on 23 November 2006.

A person is eligible to participate in ZESOP if he or she is a director or an employee of a group company. Approved share options are first allocated to each group company based on its profit contribution to the Group for the past 3 years adjusted by factors such as potential contribution to the Group and past conversion rates. These options are then granted to employees based on individual performance and those with potentials in that group company. This initiative strengthens the Group's position to retain and attract talent so as to expand and grow to improve the Group's performance and enhance shareholders' value.

The Board may at any time make invitations to eligible employees to participate in the ZESOP. The invitation will specify the total number of options each eligible employee may acquire, the exercise price, period and exercise conditions. All options shall lapse upon the expiry of the exercise period as determined by the Board or 10 years after grant of the option whichever is earlier.

If an eligible participant ceases to be employed by any member of the group, his or her options shall lapse. In the event an eligible participant, who, by reason of death, or physical or mental incapacity or such other reasons as the Board may approve, ceases to be an eligible participant before the participant has exercised all vested options under ZESOP, then those options shall continue to be capable of being exercised in accordance with the rules.

Options granted under ZESOP carry no voting rights or entitlement to dividends.

Options are granted at no cost to employees. When exercised, each option is convertible into one ordinary share which shall be credited as fully paid up and rank equally with all other fully paid ordinary shares.

No share options were granted or exercised during the current financial year.

There were 2,680,000 unissued ordinary shares under options at the reporting date and the date of this report.

Company Performance

The table below shows the performance of the Group for the past 5 financial years:

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-------------|-------------|-------------|-------------|-------------|
| Earnings per share (Australian cents) | (2.03) | (0.95) | 1.04 | 1.65 | 2.56 |
| Dividends per share (Australian cents) | 0.15 | 0.45 | 0.70 | 0.90 | 1.00 |
| Closing share price (Australian cents) | 12.00 | 17.00 | 20.50 | 22.00 | 23.00 |
| Net tangible assets per share (Australian cents) | 28.65 | 32.37 | 33.37 | 29.64 | 29.96 |

Exchange rates used for currency translation

| | | | | | |
|--------------------------------|--------|--------|--------|--------|--------|
| Average rate for EPS | 1.0498 | 1.0106 | 1.0864 | 1.1521 | 1.2664 |
| Closing rate for NTA per share | 1.0570 | 1.0026 | 1.0323 | 1.1739 | 1.1699 |

DIRECTORS' REPORT 2017

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C Details of remuneration (audited)

Details of the remuneration to the directors and the key management personnel of Zicom Group Limited for the years ended 30 June 2017 and 2016 are set out in the following tables. All performance related bonus and share-based payments listed in the table were 100% vested for both financial years.

| 2017 | Name | Short Term Employee Benefits | | | | Post-Employment Benefit | | | Share-Based Payments | | | Performance Related % | Consisting Of Share Options % | |
|------|---|------------------------------|---------------------|---------------------------|--|-------------------------|--------------------------------------|-------------------|----------------------|-----------------------|----------|-----------------------|-------------------------------|----------|
| | | Cash Salary and Fees S\$ | Short Term Cash S\$ | Non-Monetary Benefits S\$ | Other Short-Term Employee Benefits S\$ | Superannuation S\$ | Performance Bonus Paid in Shares S\$ | Share options S\$ | Total S\$ | Performance Related % | | | | |
| | Non-Executive Directors | | | | | | | | | | | | | |
| | Y P Lim | 37,793 | - | - | - | - | - | - | - | - | - | 37,793 | - | - |
| | F Leong | 34,643 | - | - | - | - | - | - | - | - | - | 34,643 | - | - |
| | I R Millard | 34,643 | - | - | - | - | - | - | - | - | - | 34,643 | - | - |
| | S P Ze | 30,444 | - | - | - | - | - | - | - | - | - | 30,444 | - | - |
| | Sub-total Non-Executive Directors | 137,523 | - | - | - | - | - | - | - | - | - | 137,523 | - | - |
| | Executive Directors | | | | | | | | | | | | | |
| | G L Sim – Chairman | 432,000 | - | - | 24,000 | 5,400 | - | - | - | - | - | 461,400 | - | - |
| | K H Sim | 168,588 | - | - | 12,000 | 12,240 | - | - | - | 6,176 | - | 199,004 | - | 3.1 |
| | K Y Sim | 150,571 | - | - | 44,400 | 12,240 | - | - | - | 6,176 | - | 213,387 | - | 2.9 |
| | Sub-total Executive Directors | 751,159 | - | - | 80,400 | 29,880 | - | 12,352 | - | - | - | 873,791 | - | - |
| | Other Key Management Personnel | | | | | | | | | | | | | |
| | J L Sim ⁽¹⁾ | 216,252 | 20,000 | - | 21,600 | 6,480 | - | - | - | 2,770 | - | 267,102 | 7.5 | 1.0 |
| | H S Tang ⁽²⁾ | 181,411 | 20,000 | - | 14,400 | 7,650 | - | - | - | 2,770 | - | 226,231 | 8.8 | 1.2 |
| | Sub-total Other Key Management Personnel | 397,663 | 40,000 | - | 36,000 | 14,130 | - | - | - | 5,540 | - | 493,333 | - | - |
| | Grand total | 1,286,345 | 40,000 | - | 116,400 | 44,010 | - | - | - | 17,892 | - | 1,504,647 | - | - |

⁽¹⁾ J L Sim is the joint managing director of Zicom Private Limited and a director of Zicom Holdings Private Limited

⁽²⁾ H S Tang is the joint managing director of Zicom Private Limited and a director of Zicom Holdings Private Limited

DIRECTORS' REPORT 2017

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2016

| Name | Short Term Employee Benefits | | | Other | | Post-Employment Benefit | | Share-Based Payments | | Performance Related % | Consisting Of Share Options % |
|---|------------------------------|---------------------|---------------------------|----------------------------------|--------------------|--------------------------|-------------------|----------------------|---------------|-----------------------|-------------------------------|
| | Cash Salary and Fees S\$ | Short Term Cash S\$ | Non-Monetary Benefits S\$ | Short-Term Employee Benefits S\$ | Superannuation S\$ | Bonus Paid in Shares S\$ | Share options S\$ | Total S\$ | | | |
| Non-Executive Directors | | | | | | | | | | | |
| Y P Lim | 37,392 | - | - | - | - | - | - | 37,392 | - | - | - |
| F Leong | 33,350 | - | - | - | - | - | - | 33,350 | - | - | - |
| I R Millard | 35,371 | - | - | - | - | - | - | 35,371 | - | - | - |
| S P Sze | 30,318 | - | - | - | - | - | - | 30,318 | - | - | - |
| Sub-total Non-Executive Directors | 136,431 | - | - | - | - | - | - | 136,431 | - | - | - |
| Executive Directors | | | | | | | | | | | |
| G L Sim – Chairman | 432,000 | - | - | 24,000 | 4,950 | - | - | 460,950 | - | - | - |
| K H Sim | 170,015 | - | - | 12,000 | 15,470 | - | - | 205,135 | 7,650 | - | 3.7 |
| K Y Sim | 147,453 | - | - | 46,095 | 11,749 | - | - | 212,947 | 7,650 | - | 3.6 |
| Sub-total Executive Directors | 749,468 | - | - | 82,095 | 32,169 | - | - | 879,032 | 15,300 | - | - |
| Other Key Management Personnel | | | | | | | | | | | |
| J L Sim ⁽¹⁾ | 216,000 | - | - | 21,600 | 7,915 | - | - | 251,660 | 6,145 | - | 2.4 |
| H S Tang ⁽²⁾ | 186,005 | 50,000 | - | 14,400 | 6,825 | - | - | 263,375 | 6,145 | 19.0 | 2.3 |
| Sub-total Other Key Management Personnel | 402,005 | 50,000 | - | 36,000 | 14,740 | - | - | 515,035 | 12,290 | - | - |
| Grand total | 1,287,904 | 50,000 | - | 118,095 | 46,909 | - | - | 1,530,498 | 27,590 | - | - |

⁽¹⁾ J L Sim is the joint managing director of Zicom Private Limited and a director of Zicom Holdings Private Limited

⁽²⁾ H S Tang is the joint managing director of Zicom Private Limited and a director of Zicom Holdings Private Limited

DIRECTORS' REPORT 2017

Details of share options to key management personnel

Options granted to, vested, exercised or expired during the years 2017 and 2016 as well as their outstanding options held as at year end are shown in the tables below.

30 June 2017

| | Balance at 1 July 2016 | Granted | Options exercised | Expired | Balance at 30 June 2017 | Value of options granted S\$ | Value of options expired S\$ | Exercisable | Not Exercisable |
|-------------------|---------------------------|---------|----------------------|---------|-------------------------------|---------------------------------------|---------------------------------------|-------------|--------------------|
| <i>Directors</i> | | | | | | | | | |
| G L Sim | - | - | - | - | - | - | - | - | - |
| K H Sim | 300,000 | - | - | - | 300,000 | - | - | 300,000 | - |
| K Y Sim | 300,000 | - | - | - | 300,000 | - | - | 300,000 | - |
| Y P Lim | - | - | - | - | - | - | - | - | - |
| F Leong | - | - | - | - | - | - | - | - | - |
| J R Millard | - | - | - | - | - | - | - | - | - |
| S P Sze | - | - | - | - | - | - | - | - | - |
| <i>Executives</i> | | | | | | | | | |
| J L Sim | 200,000 | - | - | - | 200,000 | - | - | 200,000 | - |
| H S Tang | 200,000 | - | - | - | 200,000 | - | - | 200,000 | - |
| | 1,000,000 | - | - | - | 1,000,000 | - | - | 1,000,000 | - |

30 June 2016

| | Balance at 1 July 2015 | Granted | Options exercised | Expired | Balance at 30 June 2016 | Value of options granted S\$ | Value of options expired S\$ | Exercisable | Not Exercisable |
|-------------------|---------------------------|---------|----------------------|-----------|-------------------------------|---------------------------------------|---------------------------------------|-------------|--------------------|
| <i>Directors</i> | | | | | | | | | |
| G L Sim | - | - | - | - | - | - | - | - | - |
| K H Sim | 280,000 | 300,000 | (280,000) | - | 300,000 | 7,650 | - | - | 300,000 |
| K Y Sim | 280,000 | 300,000 | (280,000) | - | 300,000 | 7,650 | - | - | 300,000 |
| Y P Lim | - | - | - | - | - | - | - | - | - |
| F Leong | - | - | - | - | - | - | - | - | - |
| J R Millard | - | - | - | - | - | - | - | - | - |
| S P Sze | 30,000 | - | - | (30,000) | - | - | 3,538 | - | - |
| <i>Executives</i> | | | | | | | | | |
| J L Sim | 200,000 | - | - | - | 200,000 | - | - | - | 200,000 |
| H S Tang | 480,000 | - | (100,000) | (180,000) | 200,000 | - | 19,108 | - | 200,000 |
| | 1,270,000 | 600,000 | (660,000) | (210,000) | 1,000,000 | 15,300 | 22,646 | - | 1,000,000 |

The above options were granted under the Zicom Employee Share and Option Plan which was approved by shareholders on 23 November 2006.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

DIRECTORS' REPORT 2017

The terms and conditions of the options granted to key management personnel during the financial year ended 30 June 2016 were as follows:

| | 2016 |
|-------------------------------------|------------|
| Grant date | 1/12/2015 |
| Fair value per option at grant date | A\$0.04 |
| Exercise price | A\$0.18 |
| First Exercise date | 1/12/2016 |
| Last Exercise date | 30/11/2020 |

Shareholdings of key management personnel as at 30 June 2017 and 30 June 2016 are as follows:

30 June 2017

| | Balance as at 1 July 2016 | Granted as remuneration | Options exercised | Net change other | Balance as at 30 June 2017 |
|-------------------|------------------------------|----------------------------|----------------------|---------------------|-------------------------------|
| <i>Directors</i> | | | | | |
| G L Sim | 89,345,442 | – | – | 5,407,695 | 94,753,137 |
| K H Sim | 1,538,180 | – | – | – | 1,538,180 |
| K Y Sim | 1,350,253 | – | – | – | 1,350,253 |
| Y P Lim | 488,000 | – | – | – | 488,000 |
| F Leong | 624,364 | – | – | – | 624,364 |
| I R Millard | 592,250 | – | – | – | 592,250 |
| S P Sze | – | – | – | – | – |
| <i>Executives</i> | | | | | |
| J L Sim | 6,687,767 | – | – | – | 6,687,767 |
| H S Tang | 2,111,339 | – | – | – | 2,111,339 |
| | 102,737,595 | – | – | 5,407,695 | 108,145,290 |

30 June 2016

| | Balance as at 1 July 2015 | Granted as remuneration | Options exercised | Net change other | Balance as at 30 June 2016 |
|-------------------|------------------------------|----------------------------|----------------------|---------------------|-------------------------------|
| <i>Directors</i> | | | | | |
| G L Sim | 80,758,915 | – | – | 8,586,527 | 89,345,442 |
| K H Sim | 1,258,180 | – | 280,000 | – | 1,538,180 |
| K Y Sim | 1,070,253 | – | 280,000 | – | 1,350,253 |
| Y P Lim | 488,000 | – | – | – | 488,000 |
| F Leong | 624,364 | – | – | – | 624,364 |
| I R Millard | 592,250 | – | – | – | 592,250 |
| S P Sze | – | – | – | – | – |
| <i>Executives</i> | | | | | |
| J L Sim | 6,687,767 | – | – | – | 6,687,767 |
| H S Tang | 2,470,699 | – | 100,000 | (459,360) | 2,111,339 |
| | 93,950,428 | – | 660,000 | 8,127,167 | 102,737,595 |

There were no other transactions and balances with key management personnel and their related parties during the year.

DIRECTORS' REPORT 2017

Legal Proceedings

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity or to intervene in any proceedings to which the consolidated entity is a party for the purpose of taking responsibility on behalf of the consolidated entity for all or any part of those proceedings.

Auditor's Independence Declaration

A copy of the auditor's signed independence declaration as required under Section 307C of the *Corporations Act 2001* is attached to this report.

Non-Audit Services

Tax compliance services was provided by the entity's auditor, Ernst & Young Australia. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of non-audit services provided did not compromise auditor's independence.

Ernst & Young Australia received or due to receive the following amounts for the provision of services:

| | |
|-------------------------|---------|
| | S\$ |
| Assurance related | 136,474 |
| Tax compliance services | 12,388 |
| | <hr/> |
| | 148,862 |

Rounding of Amounts

The Company is an entity to which the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and accordingly, the amounts contained in the financial statements and directors' report have been rounded to the nearest S\$1,000 unless otherwise stated.

This report was made in accordance with a resolution of the Board of Directors.



GL Sim
Chairman/Managing Director
29 September 2017

AUDITOR'S INDEPENDENCE DECLARATION

to the Directors of Zicom Group Limited



Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

As lead auditor for the audit of Zicom Group Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Zicom Group Limited and the entities it controlled during the financial year.

A handwritten signature in black ink that reads 'Ernst & Young' is written over the printed name 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, which appears to be 'Tom du Preez', is written over the printed name.

Tom du Preez
Partner
29 September 2017

CORPORATE GOVERNANCE STATEMENT

Introduction

The Board of Directors is responsible for the Corporate Governance of Zicom Group Limited and its controlled entities (referred to in this document as "the Company"). The Directors are focused on fulfilling their responsibilities individually and as a Board to all of the Company's stakeholders. This involves recognition of and a need to adopt principles of good corporate governance having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations.

The Company has reviewed its Corporate Governance procedures over the past year to ensure compliance with the principles of good corporate governance.

A description of the Company's practices in complying with the principles is set out below.

Principle 1: Laying Solid Foundations for Management and Oversight

Role of Board and management

The role of the Board is to lead and oversee the management and direction of the Company and its controlled entities.

After appropriate consultation with executive management, the Board:

- defines and sets the business and strategic objectives. It monitors performance and achievement of these Company's objectives;
- oversees the reporting on matters of compliance with corporate policies and laws, takes responsibility for risk management processes and reviews executive management of the Company;
- monitors and approves business plans, financial performance and budgets, available resources, major capital expenditure, capital raising, acquisition and divestment of Company's assets;
- maintains liaison with the Company's auditor; and
- reports to shareholders.

Candidates for election or re-election as a Director

The Company is guided by the Board for the selection, nomination and appointment of Directors. As part of this process the Board ascertains the qualifications and experience that a potential candidate possesses. Background checks, as appropriate, are carried out before a person is appointed by the Board. In addition, the Board will continue to provide shareholders with all material information in its possession relevant to any decision to elect or re-elect a Director by inclusion in the Notice of Meeting.

Written agreements with Directors

The Executive Chairman, Executive Directors and Senior Executives have letters of appointments or service contracts describing their terms of office, duties, rights and responsibilities.

The other Directors do not have contracts with the Company that give them any form of certain tenure. One third of the Directors retire annually and are free to seek re-election by shareholders.

CORPORATE GOVERNANCE STATEMENT

Company Secretaries

The Joint Company Secretaries are directly accountable to the Board through the Chairman.

Diversity Policy

The Company does not have a written diversity policy but recognises the importance of benefitting from all available talent regardless of gender, age, ethnicity and cultural background. The Company promotes an environment conducive to the appointment of well qualified employees, senior management and board candidates so that there is appropriate diversity to maximise the achievement of corporate goals.

The Company has employees including executives from diversified cultural background and nationalities such as Australians, Bangladeshis, Chinese, Indians, Indonesians, Filipinos, Malaysians, Burmese, New Zealanders, Singaporeans and Thais. In addition, approximately 22% of the Company's workforce is made up of female employees.

Performance Review

The Chairman is responsible for evaluating the performance of its senior executives, committees and individual Directors. The review process is currently informal, generally done through a meeting with the Chairman of the Board. The performance is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Zicom Group Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

The review process as disclosed above was undertaken in the current reporting period.

Principle 2: Structure the Board to Add Value

Composition of Board

The names of the Directors of the Company in office at the date of this annual report are set out in the Directors' report on page 7.

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are included in the "Board of Directors" section within the annual report.

The composition of the Board has been determined so as to provide the Company with a broad base of industry, business, technical, administrative and corporate skill and experience considered necessary to represent Shareholders and fulfil the business objectives of the Company.

Nomination and Remuneration Committee

A combined Nomination and Remuneration Committee has been established comprising the following members:

- Mr Y P Lim (Chairman)
- Mr G L Sim
- Mr Frank Leong

CORPORATE GOVERNANCE STATEMENT

The Committee is responsible for the selection, nomination and appointment of Directors, monitoring the skills and expertise of current Board members, consider succession planning issues, assessing the independence of Non-Executive Directors and identifying the likely order of retirement by rotation of Directors. In addition, the committee formulates the remuneration policies for the Board Members and Managing Director of the Group.

For details on the number of meetings of the Nomination and Remuneration Committee held during the year and the attendees at those meetings, please refer to page 13 of the Directors' Report.

Board Skills Matrix

The Board seeks to ensure as a minimum the Board's skills matrix includes:

- (a) Each Director must be capable of making a valuable contribution to the effective operations of the Company and Board's deliberations and processes;
- (b) Directors must collectively have the necessary skills, knowledge and experience to understand the risks of the Company and to ensure that the Company is managed in an appropriate way taking into account these risks; and
- (c) All Directors must be able to read and understand fundamental financial statements.

The Board believes that it has adequate representation of the necessary skills and requirements noted above.

Independence

Majority of the Company's Board of Directors are independent. An independent director is one who:

- does not hold an executive position;
- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or other group member, or been a director after ceasing to hold any such employment;
- is not a principal of a significant professional adviser or a significant consultant of the Company or other group member, or an employee materially associated with the service provided;
- is not a significant supplier or customer of the Company or other group member, or an officer of, or otherwise associated directly or indirectly with a significant supplier or customer;
- has no significant contractual relationship with the Company or other group member other than as a Director of the Company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- has not been a director of the entity for such a period that his or her independence may have been compromised.

CORPORATE GOVERNANCE STATEMENT

Materiality thresholds in determining the independence of non-executive directors are:

- A relationship that accounts for more than 10% of the director's gross income (other than director's fees paid by the company).
- Where the relationship is with a firm, company or entity, in respect of which the director (or any associate) has more than 20% shareholding if a private company or 2% if a listed company.

Mr Frank Leong has no relationships or interests that would affect his role as an independent director.

Mr Y P Lim has no relationships or interests that would affect his role as an independent director.

Mr Ian R Millard has no relationships or interests that would affect his role as an independent director.

Mr S P Sze has no relationships or interests that would affect his role as an independent director.

Mr K H Sim is an Executive Director and therefore is considered by the Board to be not independent.

Mr K Y Sim is an Executive Director and therefore is considered by the Board to be not independent.

Mr G L Sim was appointed Managing Director of Zicom Group Limited commencing 1 July 2006, and Chairman of Zicom Group Limited with effect from 23 November 2006. He is a major shareholder in Zicom Group Limited through his interest in his family company, SNS Holdings Pte Ltd. Previously Mr Sim had been the major shareholder (through SNS Holdings Pte Ltd) of Zicom Holdings Private Limited ("ZHPL"). Mr Sim has been the Managing Director of ZHPL since founding the company and was appointed the Chairman of ZHPL on 17 August 2007, in line with his position as the Group Chairman. The Board has determined that Mr G L Sim is, and was not independent.

As such, the Chairperson and Managing Director positions are held by the same non-independent director. The Board recognises the importance of having an independent chair, however, other selection criterion, in particular business acumen and industry experience, are also fundamentally important. The Board has chosen a director who has significant diversified and broad-based experience in the business who will lead the Company in the best interests of the shareholders.

Length of Service

The term in office held by each Director in office at the date of this report is as follows:

| Executive | | Independent | |
|------------|----------|------------------|----------|
| Mr G L Sim | 22 years | Mr Ian R Millard | 11 years |
| Mr K H Sim | 10 years | Mr Y P Lim | 11 years |
| Mr K Y Sim | 3 years | Mr Frank Leong | 11 years |
| | | Mr S P Sze | 7 years |

The Company's Constitution specifies that at each annual general meeting, one-third of the Directors for the time being but not exceeding one-third (with the exception of the Managing Director) must retire from office by rotation.

CORPORATE GOVERNANCE STATEMENT

Independent Professional Advice

Directors and Board Committees have the right, in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, and this will not be unreasonably withheld.

Induction and Professional Development

The Company does not consider it necessary to have a formal program for inducting new directors and professional development for directors. However, whenever appropriate, the Company provides opportunities to develop and maintain their skills and knowledge to perform their roles as directors effectively.

Principle 3: Act Ethically and Responsibly

Code of Conduct

The Board expects all Directors, officers, employees and consultants to the Company to observe high standards of honesty, integrity, fairness and business ethics. The Company does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Directors are required to disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director or the interests of any other party in so far as it affects the activities of the Company and to act in accordance with the *Corporations Act 2001* if a conflict cannot be removed or it persists. Directors would be restricted from taking part in the decision making process or discussions where that conflict does arise.

Share Trading Policy

Directors are required to make disclosure of any share trading. The key principles of the Share Trading Policy are that Directors and officers are prohibited to trade while in possession of unpublished price sensitive information and during the following closed periods:

- The period between 1 January and the release of the Company's Half Year results to the Stock Exchange
- The period between 1 July and the release of the Company's Full Year results to the Stock Exchange
- The twenty-four hours following an announcement of price sensitive information on the Stock Exchange
- Other periods as may be imposed by the Company when price sensitive, non-public information may exist in relation to a matter

Price sensitive information is information that a reasonable person would expect to have a material effect on the price or value of the Company's shares. The undertaking of any trading in shares must be notified to the Company Secretary who makes disclosure to the ASX.

CORPORATE GOVERNANCE STATEMENT

Principal 4: Safeguard Integrity in Corporate Reporting

Audit Committee

The Audit Committee comprises only independent members:

- Mr Ian R Millard (Chairman)
- Mr Frank Leong
- Mr Y P Lim

The Audit Committee operates in accordance with a charter. The main responsibilities of the Audit Committee are to:

- Review, assess and approve the annual report, the half year financial report and all other financial information published by the Company or released to the market.
- Review the effectiveness of the Group's internal control environment, including effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.
- Recommend the appointment or removal of the external auditor and the rotation of the audit engagement partner.
- Recommend the remuneration of the external auditor, and review the terms of their engagement, the scope and quality of their audit and assess their performance.
- Consider the independence and competence of the external auditor on an ongoing basis.
- Report on matters relevant to the committee's role and responsibilities.

Non-committee members, including members of the management team and the external auditor, may attend meetings of the Committee by invitation of the Committee Chair.

The Committee has rights of access to management and external auditor without management present and rights to seek explanations and additional information from both management and auditor.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, please refer to page 13 of the Directors' Report.

To ensure the integrity of the Company's financial reports, the Managing Director and the Group Financial Controller are required to provide written assurance to the Board that, in their opinion, the financial records of the Company for the relevant financial year have been properly maintained in accordance with the *Corporations Act 2001*, the financial statements and the notes for the financial year comply with accounting standards and present a true and fair view of the financial position and performance of the entity.

The Company's external auditor is requested to attend the Company's Annual General Meeting to answer any questions from shareholders.

CORPORATE GOVERNANCE STATEMENT

Principal 5: Make Timely and Balanced Disclosure

The Board recognises that the Company as a publicly-listed entity has an obligation to make timely and balanced disclosure in accordance with the requirements of the *Australian Securities Exchange Listing Rules* and the *Corporations Act 2001*. The Board is committed to keep the market reasonably informed of information which may have a material effect on the price or value of the Company's securities in a balanced and understandable way.

The Executive Chairman is responsible for monitoring information which could be price sensitive, liaising with the Company Secretaries to make an initial assessment and forwarding to the Board for confirmation of disclosure of such information. If not all Directors are immediately available, the Company Secretary is authorised to lodge such information upon receiving the majority of Directors' approval in order not to delay in giving this information to ASX.

Principal 6: Respect the Rights of Shareholders

The Company aims to communicate all important information relating to the Company to its shareholders. Additionally, the Company recognises potential investors and other interested stakeholders may wish to obtain information about the Company from time to time.

To achieve this, the Company communicates information regularly to shareholders and other stakeholders through the following:

- Annual General Meeting ("AGM"): the Company encourages full participation of shareholders at the AGM and for those shareholders who are unable to attend in person, they are able to lodge proxies. The external auditor will attend the AGM and is available to answer any questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.
- Annual Report: the Company Annual Report will be available on its website and contains important information about the Company's activities and results for the previous financial year.
- ASX Announcements: all ASX announcements, including annual and half year financial reports are posted on the Company's website as soon as these have been released by ASX.
- Investor relations: the Company provides an online email inquiry service to assist shareholders with any queries.

All shareholders are given the options to receive communications from, and send communications to, the share registry electronically.

Principle 7: Recognise and Manage Risk

Given the size of the Company, the Board has not established a risk committee nor does it have an internal audit function. Rather the Board is responsible for the Company's risk management. The responsibility and control of risk management rests with the senior management of the respective subsidiaries chaired by the Executive Chairman.

CORPORATE GOVERNANCE STATEMENT

The Board is conscious of the need to continually maintain systems of risk management and controls and is responsible for overseeing and approving risk management strategy and policies and internal controls. The Company has in place policies and procedures for risk management which cover areas including workplace health and safety, control of key resources, investment, manufacturing, financial and other critical business processes. The operational risks are managed by senior management level and escalated to the Board for direction where the issue is exceptional, non-recurring or may have a material financial or operational impact on the Company.

The Company does not consider that it has any material exposure to economic, environmental and social sustainability risks.

In accordance with Section 295A of the *Corporations Act 2001*, the Group Managing Director (Chief Executive Officer equivalent) and the Group Financial Controller (Chief Financial Officer equivalent) have provided a written statement to the Board that:

- The view provided on the Company's financial report for the financial year just ended is founded on a sound system of risk management and internal control which implements the policies adopted by the Board; and
- The Company's risk management and internal control system is operating efficiently and effectively in all material respects to manage the Company's key business risks.

The Board acknowledges that such internal control assurance is not absolute and can only be provided on a reasonable basis after having made due enquiries. This is due to factors such as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal controls and because much of the evidence available is persuasive rather than conclusive and therefore is not, and cannot be, designed to detect all weaknesses in control procedures.

Principle 8: Remunerate Fairly and Responsibly

As stated above, a combined Nomination and Remuneration Committee has been established by the Board comprising the Executive Chairman and two independent directors.

For details on the number of meetings of the Nomination and Remuneration Committee held during the year and the attendees at those meetings, please refer to page 13 of the Directors' Report.

Details of the remuneration for Directors and Key Management Personnel can be found in the Directors' Report within the Annual Report.

The Managing Director and Executive Directors receive performance based remuneration. The Managing Director has renewed his service agreement with the Group for a term of another 5 years from 1 July 2016. The Non-Executive Directors do not receive any performance based remuneration and do not have contracts with the Company that give them any form of specific tenure. One-third of the Directors except the Managing Director retire annually and are free to seek re-election by shareholders.

Each member of the Board has committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

CORPORATE GOVERNANCE STATEMENT

A maximum amount of remuneration for Non-Executive Directors is fixed by shareholders in general meetings and can be varied in the same manner. In determining the allocation, the Board must take into account the time demands on the Directors together with the responsibilities undertaken by them.

The Directors with the exception of Mr G L Sim were granted options. The first grant of options was approved by the shareholders in an Extraordinary General Meeting on 28 August 2008. The Board considers that there should be an appropriate mix of remuneration comprising cash and securities for all Directors to link the remuneration of the Directors to the financial performance of the Company. The Directors consider this remuneration policy sensible and balanced which aligns the interests of shareholders and all Directors. Transactions which limit the economic risk of participating in unvested elements under equity-based remuneration schemes are not allowed.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

(In Singapore dollars)

| | Note | 2017 S\$'000 | 2016 S\$'000 |
|---|------|-----------------|-----------------|
| Revenue from continuing operations | 5 | 92,628 | 113,897 |
| Other operating income | 5 | 1,892 | 1,761 |
| Cost of materials | | (45,571) | (67,941) |
| Employee, contract labour and related costs | | (28,601) | (28,564) |
| Depreciation and amortisation | | (5,356) | (5,604) |
| Property related expenses | | (2,484) | (2,398) |
| Other operating expenses | 5 | (17,119) | (11,999) |
| Finance costs | | (421) | (467) |
| Share of results of associates | 12 | (724) | (382) |
| Loss before taxation | | (5,756) | (1,697) |
| Tax benefit/(expense) | 6 | 1,003 | (878) |
| Loss for the year from continuing operations after taxation | | (4,753) | (2,575) |
| Other comprehensive income: | | | |
| Items that may be subsequently reclassified to profit and loss | | | |
| Share of other comprehensive income of associates, net of tax | | (19) | 10 |
| Foreign currency translation on consolidation | | 915 | (855) |
| Other comprehensive income/(loss) for the period, net of tax | | 896 | (845) |
| Total comprehensive loss | | (3,857) | (3,420) |
| Loss attributable to: | | | |
| Equity holders of the Parent | | (4,620) | (2,086) |
| Non-controlling interests | | (133) | (489) |
| Loss for the year | | (4,753) | (2,575) |
| Total comprehensive loss attributable to: | | | |
| Equity holders of the Parent | | (3,724) | (2,931) |
| Non-controlling interests | | (133) | (489) |
| Total comprehensive loss | | (3,857) | (3,420) |
| Earnings per share (cents) | | | |
| Basic loss per share | 7 | (2.13) | (0.96) |
| Diluted loss per share | 7 | (2.13) | (0.96) |

CONSOLIDATED BALANCE SHEET

as at 30 June 2017

(In Singapore dollars)

| | 2017 | 2016 |
|--|----------------|----------------|
| Note | S\$'000 | S\$'000 |
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 9 22,969 | 24,728 |
| Intangible assets | 10 14,725 | 14,632 |
| Deferred tax assets | 6 2,767 | 2,378 |
| Convertible loan to an associate | 12 602 | – |
| Investments in associates | 12 9,448 | 6,886 |
| Others | – | 1 |
| | <u>50,511</u> | <u>48,625</u> |
| Current assets | | |
| Cash and bank balances | 20 18,591 | 20,557 |
| Inventories | 13 23,145 | 22,427 |
| Trade and other receivables | 14 19,195 | 15,512 |
| Gross amount due from customers for contract work | 15 3,305 | 11,735 |
| Prepayments | 409 | 786 |
| Tax recoverable | 32 | 17 |
| | <u>64,677</u> | <u>71,034</u> |
| TOTAL ASSETS | <u>115,188</u> | <u>119,659</u> |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Trade and other payables | 16 19,991 | 18,176 |
| Gross amount due to customers for contract work | 15 19 | 2,580 |
| Interest-bearing liabilities | 17 9,935 | 7,352 |
| Provisions | 18 2,281 | 1,069 |
| Provision for taxation | 219 | 513 |
| | <u>32,445</u> | <u>29,690</u> |
| NET CURRENT ASSETS | <u>32,232</u> | <u>41,344</u> |
| Non-current liabilities | | |
| Interest-bearing liabilities | 17 652 | 2,584 |
| Deferred tax liabilities | 6 1,224 | 1,954 |
| Provisions | 18 398 | 339 |
| | <u>2,274</u> | <u>4,877</u> |
| TOTAL LIABILITIES | <u>34,719</u> | <u>34,567</u> |
| NET ASSETS | <u>80,469</u> | <u>85,092</u> |
| Equity attributable to equity holders of the Parent | | |
| Share capital | 19 38,314 | 38,314 |
| Reserves | (1,501) | (2,437) |
| Retained earnings | 43,444 | 49,146 |
| | <u>80,257</u> | <u>85,023</u> |
| Non-controlling interests | 212 | 69 |
| TOTAL EQUITY | <u>80,469</u> | <u>85,092</u> |
| TOTAL LIABILITIES AND EQUITY | <u>115,188</u> | <u>119,659</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

(In Singapore dollars)

| Note | Attributable to equity holders of the Parent | | | | | | | Total equity |
|--|--|---|--|----------------------------------|-------------------|---------|---------------------------|--------------|
| | Share capital | Share capital – exercise of share options (a) | Foreign currency translation reserve (b) | Share-based payments reserve (c) | Retained earnings | Total | Non-controlling interests | |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Balance at 1.7.2015 | 37,555 | 307 | (1,752) | 616 | 52,211 | 88,937 | 498 | 89,435 |
| Loss for the year | - | - | - | - | (2,086) | (2,086) | (489) | (2,575) |
| Other comprehensive loss | - | - | (845) | - | - | (845) | - | (845) |
| Total comprehensive loss for the year | - | - | (845) | - | (2,086) | (2,931) | (489) | (3,420) |
| Exercise of employee share options | 287 | 165 | - | (165) | - | 287 | - | 287 |
| Share-based payments | - | - | - | 83 | - | 83 | - | 83 |
| Expiry of employee share options | - | - | - | (374) | 374 | - | - | - |
| Acquisition of non-controlling interest | - | - | - | - | (6) | (6) | 6 | - |
| Change in interest in subsidiary company | - | - | - | - | (11) | (11) | 54 | 43 |
| Dividends paid on ordinary shares | - | - | - | - | (1,336) | (1,336) | - | (1,336) |
| Balance at 30.6.2016 | 37,842 | 472 | (2,597) | 160 | 49,146 | 85,023 | 69 | 85,092 |
| Loss for the year | - | - | - | - | (4,620) | (4,620) | (133) | (4,753) |
| Other comprehensive gain | - | - | 896 | - | - | 896 | - | 896 |
| Total comprehensive loss for the year | - | - | 896 | - | (4,620) | (3,724) | (133) | (3,857) |
| Share-based payments | - | - | - | 43 | - | 43 | - | 43 |
| Forfeiture of employee share options | - | - | - | (3) | 3 | - | - | - |
| Acquisition of non-controlling interest | - | - | - | - | (276) | (276) | 276 | - |
| Dividends paid on ordinary shares | - | - | - | - | (809) | (809) | - | (809) |
| Balance at 30.6.2017 | 37,842 | 472 | (1,701) | 200 | 43,444 | 80,257 | 212 | 80,469 |

(a) Share capital – exercise of share options is used to record the transfer from share-based payments reserve upon the exercise of the share options.

(b) Foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

(c) The share-based payments reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options and is reduced by the expiry or exercise of the share options.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

(In Singapore dollars)

| | Note | 2017 S\$'000 | 2016 S\$'000 |
|--|-------|-----------------|-----------------|
| Cash flows from operating activities: | | | |
| Operating loss before taxation | | (5,756) | (1,697) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 9 | 4,300 | 4,536 |
| Amortisation of intangible assets | 10 | 1,056 | 1,068 |
| Bad debts written off | 5 | 5 | 130 |
| Allowance for doubtful debts, net | 5 | 412 | 160 |
| Allowance for inventory obsolescence, net | 5 | 307 | 224 |
| Inventories written off | 5 | 62 | 7 |
| Finance costs | | 421 | 467 |
| Interest income | 5 | (62) | (81) |
| Property, plant and equipment written off | 5 | 7 | 36 |
| Intangible assets written off | 5 | – | 22 |
| Gain on disposal of property, plant and equipment, net | 5 | (71) | (46) |
| Forfeiture of customer deposit | 5 | (95) | (45) |
| Trade and other payables written back | 5 | (37) | (6) |
| Provisions made/(written back), net | 18 | 1,423 | (177) |
| Share-based payments | | 43 | 83 |
| Share of results of associates | | 724 | 382 |
| Unrealised exchange differences | | 573 | (422) |
| Operating profit before reinvestment in working capital | | 3,312 | 4,641 |
| (Increase)/decrease in stocks and work-in-progress | | (835) | 4,397 |
| Decrease/(increase) in projects-in-progress | | 5,869 | (9,216) |
| (Increase)/decrease in debtors | | (3,712) | 9,468 |
| Increase/(decrease) in creditors | | 3,969 | (3,360) |
| Cash generated from operations | | 8,603 | 5,930 |
| Interest received | | 45 | 81 |
| Interest paid | | (402) | (480) |
| Income taxes paid | | (407) | (102) |
| Net cash generated from operating activities | | 7,839 | 5,429 |
| Cash flows from investing activities: | | | |
| Purchase of property, plant and equipment | 9(b) | (1,777) | (794) |
| Proceeds from disposal of property, plant and equipment | 9(c) | 94 | 115 |
| Proceeds from disposal of available-for-sale asset | | 1 | – |
| Purchase of computer software | 10 | (68) | (39) |
| Increase in development expenditure | | (974) | (506) |
| Increase in patented technology | 10 | (56) | (41) |
| Investments in associates | 12(b) | (3,339) | (1,765) |
| Subscription of convertible loan in an associate | | (600) | – |
| Net cash used in investing activities | | (6,719) | (3,030) |

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

(In Singapore dollars)

| Note | 2017 S\$'000 | 2016 S\$'000 |
|--|---|---|
| Cash flows from financing activities: | | |
| | (1,233) | (3,434) |
| 8 | (809) | (1,336) |
| | – | 43 |
| | – | 287 |
| | (819) | (1,693) |
| | <u>(2,861)</u> | <u>(6,133)</u> |
| | (1,741) | (3,734) |
| | (1) | (155) |
| 20 | <u>19,981</u> | <u>23,870</u> |
| | Cash and cash equivalents at end of year | Cash and cash equivalents at end of year |
| 20 | <u>18,239</u> | <u>19,981</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

1. Corporate information

This financial report of Zicom Group Limited (the "Company" or "Parent Entity") and its subsidiaries (collectively, the "Group" or "consolidated entity") for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 29 September 2017.

Zicom Group Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The Company is also the ultimate parent.

The nature of the operations and principal activities of the Group are described in the Directors' report.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"). The financial report has also been prepared on a historical cost basis except for derivative financial instruments which have been measured at their fair values.

The financial report is presented in Singapore dollars and all values are rounded to the nearest thousand dollars (S\$'000) unless otherwise stated.

2.2 Statement of compliance

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(i) *Changes in accounting policies and disclosures*

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 July 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group.

(ii) *Accounting Standards and Interpretations issued but not effective*

Certain Australian Accounting Standards and Interpretations have been recently issued or amended but are not yet effective. The directors expect the adoption of these new and amended standards and interpretations will have no material impact on the financial statements in the period of initial application except for the standards disclosed below for which the directors have yet to finalise their assessment of the impact.

- *AASB 9 Financial Instruments (Effective for annual periods on or after 1 July 2018)*
- *AASB 15 Revenue from Contracts with Customers (Effective for annual periods on or after 1 July 2018)*
- *AASB 16 Leases (Effective for annual periods on or after 1 July 2019)*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.3 Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2017. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Parent. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.4 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair values at the date of acquisition. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any resulting gain or loss is recognised in profit or loss.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of the net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this circumstance is measured based on the relative fair values of the disposed operation and the portion of the cash-generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.5 Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The Group aggregates two or more operating segments when they have similar economic characteristics and the segments are similar in each of the following respects:

- Nature of the products and services
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets, head office expenses, and income tax assets and liabilities. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

2.6 Foreign currency

(a) Functional and presentation currency

The presentation currency of Zicom Group Limited is Singapore dollars (S\$). Each subsidiary in the Group determines its own functional currency and items included in the financial statements of each subsidiary company are measured using that functional currency.

(b) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Differences arising on the settlement or translation of monetary items are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.6 Foreign currency (cont'd)

(c) Consolidated financial statements

On consolidation, the results and balance sheet of foreign operations are translated into Singapore dollars using the following procedures:

- Assets and liabilities are translated at the closing rate prevailing at the reporting date; and
- Income and expenses are translated at average exchange rate for the year, which approximates the exchange rates at the dates of the transactions.

The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.7 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its costs is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Freehold land has an unlimited useful life and is therefore not depreciated. Depreciation of an asset begins when it is available for use and is computed on the straight-line basis over the estimated useful lives of the assets as follows:

| | |
|--------------------------------|--|
| Leasehold buildings | over remaining period of the lease expiring years 2036 to 2042 |
| Buildings | 20 years |
| Machinery | 10 years |
| Office furniture and equipment | 3 - 5 years |
| Leasehold improvements | 5 years |
| Motor vehicles | 5 years |
| Computers | 1 year |

Machinery under installation or construction are not depreciated as these assets are not yet available for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.7 Property, plant and equipment (cont'd)

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

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

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

2.8 Intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets with the exception of development expenditure and computer software costs are not capitalised and the related expenditure is recognised in profit or loss in the period in which such expenditure is incurred.

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

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

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

Amortisation is calculated on a straight-line basis over the estimated useful lives of intangible assets as follows:

| | |
|-------------------------|---------------|
| Computer software | 5 years |
| Customer list | 8 years |
| Developed technology | 7 years |
| Development expenditure | 5 – 10 years |
| Patented technology | 10 – 20 years |
| Unpatented technology | 12 – 14 years |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.8 Intangible assets (cont'd)

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during development. Amortisation begins when the development is complete and the asset is available for use or sale. Any expenditure so capitalised is amortised over the period of expected benefit from the related project. During the period of development, the asset is tested for impairment annually.

Club membership

Club membership was acquired separately and is not amortised as it has an indefinite life.

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

2.9 Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in profit or loss.

The Group bases its impairment calculation on detailed budgets which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets generally cover a period of one to five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the period covered by the budgets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.9 Impairment of non-financial assets (cont'd)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in profit or loss.

2.10 Associates

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

The Group account for its investments in associates using the equity method from the date it becomes an associate.

On acquisition of the investment, any excess of the cost of investment over the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted as goodwill and is included in the carrying amount of the investment. Such goodwill is neither amortised nor tested for impairment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of investment is included as income in the determination of the Group's share of results of associate in the period in which the investment is acquired.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.10 Associates (cont'd)

The financial statements of the associates are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures the retained interest at fair value. Any difference between the aggregate of fair value of the retained interest and proceeds from disposal and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss.

2.11 Financial Instrument – Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purpose of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loan and receivables
- Held-to-maturity investments
- Available-for-sale financial assets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.11 Financial Instrument – Initial recognition and subsequent measurement (cont'd)

(i) Financial assets (cont'd)

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139.

The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried at fair value with net changes in fair value presented as finance costs or interest income in profit or loss.

(b) Loans and receivables

This category is the most relevant to the Group. Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(c) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process. The Group did not have any held-to-maturity investments during the years ended 30 June 2017 and 2016.

(d) Available-for-sale (AFS) financial assets

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.11 Financial Instrument – Initial recognition and subsequent measurement (cont'd)

(i) Financial assets (cont'd)

(d) Available-for-sale (AFS) financial assets (cont'd)

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or when the investment is determined to be impaired, the cumulative loss is reclassified from the AFS reserve to profit or loss. Interest earned while holding AFS financial assets is reported as interest income using the effective interest rate method.

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

Derecognition

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

(ii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.11 Financial Instrument – Initial recognition and subsequent measurement (cont'd)

(ii) Impairment of financial assets (cont'd)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. When the asset becomes uncollectable, the carrying amount of the impaired financial asset is reduced directly or if the amount was previously charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised in profit or loss.

(iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

(a) Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 139. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 139 are satisfied. The Group has not designated any financial liability at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.11 Financial Instrument – Initial recognition and subsequent measurement (cont'd)

(iii) Financial liabilities (cont'd)

(b) Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition

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

(iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.12 Derivative financial instruments

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts which forms an integral part of the Group's cash management. Bank overdrafts are included within interest-bearing liabilities under current liabilities in the balance sheet.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.14 Inventories

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

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

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

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

2.15 Construction contracts

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

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

Where the contract outcome cannot be measured reliably (principally during the early stages of a contract), both contract revenue and expenses are not recognised until the contract outcome can be estimated reliably.

The stage of completion is measured by the proportion that contract costs incurred to date bear to the estimated total contract costs. Only costs that reflect services performed are included in the estimated total costs of the contract.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.16 Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- i) In the principal market for the asset or liability or
- ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.17 Provisions

General

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

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

Warranty provisions

Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is reviewed annually and revised, if necessary.

Long service leave / retirement benefits

The liabilities for long service leave and retirement benefits, applicable to Australian and Thailand subsidiaries respectively, are recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds and corporate bond rates with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

2.18 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Where the grant relates to an asset, it is deducted in arriving at the carrying amount of the asset.

2.19 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditure and borrowing costs are incurred. Borrowing costs are capitalised until the asset is substantially completed for its intended use or sale. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.20 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that asset is or those assets are not explicitly specified in the arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease.

Finance leases are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss as finance cost.

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

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group transfers substantially all the risks and rewards of ownership of the leased asset is accounted for in accordance with the Group's policy for sale of goods as set out in note 2.22. Costs incurred in connection with negotiating and arranging the finance lease are recognised as an expense when the selling profit is recognised.

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. The accounting policy for rental income is set out in note 2.22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.21 Employee benefits

(a) *Defined contribution plans*

The Group makes contributions to national pension schemes as defined by the laws of the countries in which it has operations.

For its Australian subsidiaries, contributions are made to employee accumulation superannuation funds. For the Group's companies in Singapore, contributions are made to the Central Provident Fund scheme, a defined contribution pension scheme. The subsidiary company incorporated and operating in the People's Republic of China ("PRC") is required to provide certain staff pension benefits to its employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulators and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees.

Contributions to defined contribution pension schemes are recognised as an expense in the year in which the related service is performed.

(b) *Employee share option plan*

Employees (including key management personnel) of the Group receive remuneration in the form of share options as consideration for service rendered. The cost of these equity-settled share-based payment transactions with employees is measured by reference to the fair value of the options at the date of grant using an appropriate valuation model. This cost is recognised in profit or loss, with a corresponding increase in the share-based payments reserve, over the period in which service conditions are fulfilled ("vesting period"). The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The expense or credit to profit or loss for a period represents the movement in cumulative expense recognised as at beginning and end of that period and is recognised in employee costs.

No expense is recognised for options that do not ultimately vest. The share-based payments reserve is transferred to retained earnings upon expiry or forfeiture of the share options after its vesting date. When the options are exercised, the share-based payments reserve is transferred to share capital as new shares are issued.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modifications that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where the employee share option plan is cancelled, it is treated as if it vested on the date of cancellation, and any expense that otherwise would have been recognised for services received over the remaining vesting period is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date it was granted, the cancelled and new awards are treated as if there was a modification of the original award, as described in the previous paragraph.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.21 Employee benefits (cont'd)

(c) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled within 12 months from the reporting date is recognised for services rendered by the employees up to the end of the reporting period.

2.22 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

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

Rendering of services

Revenue from services rendered are recognised upon performance of services and the delivery to customers.

Revenue recognised on projects

Revenue on projects are recognised using the percentage of completion method. The stage of completion is determined by reference to the costs incurred to date as a percentage of total estimated costs for each project. Losses, if any, are immediately recognised when their existence is foreseen.

Interest income

Interest income is recognised using the effective interest rate.

Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.22 Revenue recognition (cont'd)

Rental income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

Commission income

Commission for services rendered is recognised on an accrual basis.

2.23 Taxation

(a) *Current income tax*

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

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

(b) *Deferred tax*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.23 Taxation (cont'd)

(b) *Deferred tax (cont'd)*

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(c) *Goods and services tax*

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

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

The net amount of goods and services tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

2.24 Share capital and share issuance expenses

Ordinary shares are classified as share capital in equity. Incremental costs directly attributable to the issuance of new shares are deducted against share capital.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affected in future periods.

(a) Judgements made in applying accounting policies

(i) Determination of control and significant influence over investees

As at 30 June 2017, the Group holds 73.02% (2016: 72.62%) equity interest in Curiox Biosystems Pte Ltd ("Curiox"). Although the Group holds the majority of voting rights in Curiox, it has been assessed that the Group does not have the practical ability to direct the relevant activities of Curiox unilaterally but has significant influence over its financial and operating policy decisions. Hence, the investment in Curiox is treated as an associate as opposed to being a subsidiary company.

As at 30 June 2017, the Group holds 10.88% (2016: 10.88%), 16.66% (2016: nil) and 8.23% (2016: nil) equity interests in HistoIndex Pte Ltd, BELKIN Laser Ltd and Pellucid Networks Pte Ltd respectively. The Group considers these investees as associates as the Group has the ability to exercise significant influence through both its shareholdings and active participation on the respective Boards of Directors.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) Impairment of non-financial assets and investments in associates

The Group assesses whether there are any indicators of impairment for all non-financial assets and investments in associates at each reporting date. Impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount which is the higher of its fair value less costs of disposal and its value in use.

Goodwill and other intangibles with indefinite lives are tested for impairment annually and at other times when such indicators exist. Other non-financial assets and investments in associates are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

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

(i) Impairment of non-financial assets and investments in associates (cont'd)

The fair value less costs of disposal calculation is based on available data from binding sales transactions conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the assets (where applicable). The value in use calculations are based on a Discounted Cash Flow (DCF) model. The cash flows are derived from budgets for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

When value in use calculations are undertaken to determine the recoverable amount, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The recoverable amounts are sensitive to the discount rates used in the DCF model, future cash inflows including the timing of such cash inflows and the growth rates used for both the initial five year cash flow period and long term growth rates. For some CGUs, management also considers the ability to commercialise based on the stage of development of the CGU's product and services. Whilst these decisions are based on outcomes from research and development to date, it also involves a significant level of judgement. These estimates are most relevant to goodwill and other intangible assets recognised by the Group. These estimates are also relevant where the carrying value of investments in associates are considered.

The key assumptions used to determine the recoverable amounts for the different cash generating units are disclosed in note 10 to the financial statements.

(ii) Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. The Group also takes into account if there have been significant changes in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the reporting date is disclosed in note 21 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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

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

(iii) Construction contracts

The Group recognises contract revenue by reference to the stage of completion of the contract activity at the reporting date, when the outcome of a construction contract can be estimated reliably. The stage of completion is determined by reference to the costs incurred to date for work performed as a percentage of total estimated contract costs. Significant assumptions are required to estimate the total contract costs which will affect the stage of completion. In making these estimates, management has relied on past experience and knowledge of the project engineers. The carrying amounts of assets and liabilities arising from construction contracts at the balance sheet date are disclosed in note 15 to the financial statements.

(iv) Development expenditure

The Group capitalises development expenditure in accordance with its accounting policy as set out in note 2.8. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed. In determining the amount to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. As at 30 June 2017, the carrying amount of capitalised development expenditure was S\$5,113,000 (2016: S\$4,754,000).

(v) Taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the provision for income taxes. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. The Group recognises deferred tax assets for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits. Where the final tax outcome is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The carrying amounts of the Group's current tax payables and deferred tax liabilities at 30 June 2017 were S\$219,000 (2016: S\$513,000) and S\$1,224,000 (2016: S\$1,954,000) respectively. The Group also had deferred tax assets of S\$2,767,000 (2016: S\$2,378,000) as at 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

4. Segment information

Business segments

Identification of reportable segments

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

- Offshore Marine, Oil & Gas Machinery – manufacture and supply of deck machinery, gas metering stations, gas processing plants, offshore structures for underwater robots and related equipment, parts and services.
- Construction Equipment – manufacture and supply of concrete mixers and foundation equipment, including equipment rental, parts and related services.
- Precision Engineering & Technologies – manufacture and supply of precision and automation equipment, medtech equipment and products, medtech translation and engineering services.
- Industrial & Mobile Hydraulics – supply of hydraulic drive systems, parts and services.

Intersegment sales

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

Unallocated revenue and expenses

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

4. Segment information (cont'd)

Business segments (cont'd)

The following tables present information regarding operating segments for the years ended 30 June 2017 and 2016.

| | Offshore marine, oil & gas machinery S\$'000 | Construction equipment S\$'000 | Precision engineering & technologies S\$'000 | Industrial & mobile hydraulics S\$'000 | Consolidated S\$'000 |
|-----------------------------------|---|--------------------------------------|---|---|-------------------------|
| Year ended 30 June 2017 | | | | | |
| Revenue | | | | | |
| Sales to external customers | 31,362 | 30,965 | 28,717 | 1,584 | 92,628 |
| Other revenue | 173 | 82 | 1,468 | – | 1,723 |
| Intersegment sales | – | 1 | 4 | 436 | 441 |
| Total segment revenue | 31,535 | 31,048 | 30,189 | 2,020 | 94,792 |
| Intersegment elimination | | | | | (441) |
| Unallocated revenue | | | | | 107 |
| Interest income | | | | | 62 |
| Total consolidated revenue | | | | | 94,520 |
| Results | | | | | |
| Segment results | 492 | (1,154) | (3,011) | 347 | (3,326) |
| Unallocated revenue | | | | | 107 |
| Unallocated expenses | | | | | (1,454) |
| Share of results of associates | | | (724) | | (724) |
| Loss before tax and finance costs | | | | | (5,397) |
| Finance costs | | | | | (421) |
| Interest income | | | | | 62 |
| Loss before taxation | | | | | (5,756) |
| Tax benefit | | | | | 1,003 |
| Net loss after taxation | | | | | (4,753) |
| Other segment information | | | | | |
| Capital expenditure | | | | | |
| - property, plant and equipment | 228 | 2,125 | 478 | – | 2,831 |
| - intangible assets | – | 2 | 1,108 | – | 1,110 |
| | | | | | 3,941 |
| Depreciation and amortisation | 422 | 3,344 | 1,318 | 17 | 5,101 |
| Other non-cash expenses | 972 | 458 | 864 | 64 | 2,358 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

4. Segment information (cont'd)

Business segments (cont'd)

| | Offshore marine, oil & gas machinery | Construction equipment | Precision engineering & technologies | Industrial & mobile hydraulics | Consolidated |
|--------------------------------------|--|---------------------------|--|--------------------------------------|----------------|
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Year ended 30 June 2016 | | | | | |
| Revenue | | | | | |
| Sales to external customers | 59,210 | 41,202 | 11,623 | 1,862 | 113,897 |
| Other revenue | 48 | 66 | 1,387 | 1 | 1,502 |
| Intersegment sales | – | 3 | – | 452 | 455 |
| Total segment revenue | 59,258 | 41,271 | 13,010 | 2,315 | 115,854 |
| Intersegment elimination | | | | | (455) |
| Unallocated revenue | | | | | 178 |
| Interest income | | | | | 81 |
| Total consolidated revenue | | | | | 115,658 |
| Results | | | | | |
| Segment results | 7,450 | 494 | (7,723) | 420 | 641 |
| Unallocated revenue | | | | | 178 |
| Unallocated expenses | | | | | (1,748) |
| Share of results of associates | | | (382) | | (382) |
| Loss before tax and finance costs | | | | | (1,311) |
| Finance costs | | | | | (467) |
| Interest income | | | | | 81 |
| Loss before taxation | | | | | (1,697) |
| Tax expense | | | | | (878) |
| Net loss after taxation | | | | | (2,575) |
| Other segment information | | | | | |
| Capital expenditure | | | | | |
| - property, plant and equipment | 23 | 1,168 | 491 | – | 1,682 |
| - intangible assets | 33 | 2 | 548 | – | 583 |
| | | | | | 2,265 |
| Depreciation and amortisation | 442 | 3,496 | 1,408 | 17 | 5,363 |
| Other non-cash expenses/ (income) | (100) | 528 | 151 | 48 | 627 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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4. Segment information (cont'd)

Geographical segments

The Group's geographical segments for revenue and non-current assets are determined based on location of customers and assets respectively.

The following table presents revenue and certain assets information regarding geographical segments for the years ended and as at 30 June 2017 and 2016.

| | 30 June 2017 | | | | | | | | | | | |
|---------------------------------------|----------------------|---------------------|----------------------|------------------|-----------------------------|-----------------------|---------------------|----------------------|------------------------|-------------------|-------------------|------------------|
| | Australia S\$'000 | Malaysia S\$'000 | Singapore S\$'000 | China S\$'000 | United States S\$'000 | Bangladesh S\$'000 | Thailand S\$'000 | Indonesia S\$'000 | Philippines S\$'000 | Taiwan S\$'000 | Others S\$'000 | Total S\$'000 |
| Revenue | | | | | | | | | | | | |
| Sales to external customers | 17,377 | 4,434 | 12,386 | 21,226 | 2,135 | 7,596 | 3,322 | 2,578 | 1,755 | 14,055 | 5,764 | 92,628 |
| Other revenue from external customers | 16 | 17 | 1,825 | 9 | - | - | 21 | 3 | 1 | - | - | 1,892 |
| | | | | | | | | | | | | <u>94,520</u> |
| Other segment information | | | | | | | | | | | | |
| Segment non-current assets | 2,564 | 1,674 | 27,217 | 216 | 20 | - | 5,230 | 429 | 36 | - | 910 | 38,296 |
| Investments in associates | - | - | 8,074 | - | - | - | - | - | - | - | 1,374 | 9,448 |
| Unallocated assets | | | | | | | | | | | | <u>2,767</u> |
| | | | | | | | | | | | | <u>50,511</u> |
| Capital expenditure | | | | | | | | | | | | |
| - property, plant and equipment | 336 | 246 | 2,223 | 136 | - | - | 3 | 8 | 38 | - | - | 2,990 |
| - intangible assets | 2 | - | 1,129 | - | - | - | - | - | - | - | - | 1,131 |
| | | | | | | | | | | | | <u>4,121</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

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4. Segment information (cont'd)

Geographical segments (cont'd)

30 June 2016

| Revenue | United States | | | | | | | | | | Total S\$'000 |
|---------------------------------------|----------------------|---------------------|----------------------|------------------|-----------------------|---------------------|----------------------|------------------------|-------------------|-------------------|------------------|
| | Australia S\$'000 | Malaysia S\$'000 | Singapore S\$'000 | China S\$'000 | Bangladesh S\$'000 | Thailand S\$'000 | Indonesia S\$'000 | Philippines S\$'000 | Taiwan S\$'000 | Others S\$'000 | |
| Sales to external customers | 21,281 | 2,909 | 23,420 | 10,856 | 1,248 | 4,358 | 1,730 | 1,400 | - | 4,153 | 113,897 |
| Other revenue from external customers | 7 | 9 | 1,677 | 3 | - | 18 | 47 | - | - | - | 1,761 |
| | | | | | | | | | | | <u>115,658</u> |
| Other segment information | | | | | | | | | | | |
| Segment non-current assets | 2,182 | 2,107 | 28,954 | 121 | - | 5,490 | 507 | - | - | - | 39,361 |
| Investments in associates | - | - | 6,886 | - | - | - | - | - | - | - | 6,886 |
| Unallocated assets | | | | | | | | | | | <u>2,378</u> |
| | | | | | | | | | | | <u>48,625</u> |
| Capital expenditure | | | | | | | | | | | |
| - property, plant and equipment | 100 | - | 1,561 | 14 | - | 16 | 140 | - | - | - | 1,831 |
| - intangible assets | - | - | 586 | - | - | - | - | - | - | - | 586 |
| | | | | | | | | | | | <u>2,417</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

5. Revenue, income and expenses

(i) Revenue

| | Consolidated | |
|--------------------------------|---------------------|----------------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Sale of goods | 53,926 | 50,200 |
| Rendering of services | 4,491 | 4,275 |
| Rental income | 2,794 | 2,921 |
| Revenue recognised on projects | 31,417 | 56,501 |
| | <u>92,628</u> | <u>113,897</u> |

(ii) Other operating income

| | Consolidated | |
|---|---------------------|--------------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Interest income | 62 | 81 |
| Forfeiture of customer deposit | 95 | 45 |
| Gain on disposal of property, plant and equipment | 71 | 56 |
| Services rendered | 487 | 118 |
| Government grants | 1,122 | 1,433 |
| Trade and other payables written back | 37 | 6 |
| Other revenue | 18 | 22 |
| | <u>1,892</u> | <u>1,761</u> |

(iii) Other operating expenses

Included in other operating expenses are the following:

| | Consolidated | |
|---|---------------------|-------------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Allowance for inventory obsolescence, net | 307 | 224 |
| Allowance for doubtful debts, net | 412 | 160 |
| Bad debts written off | 5 | 130 |
| Foreign exchange (gain)/loss | (236) | 359 |
| Provision for product warranties made/(written back), net | 1,365 | (240) |
| Property, plant and equipment written off | 7 | 36 |
| Warranty expense charged directly to profit or loss | 4 | - |
| Inventories written off | 62 | 7 |
| Intangible assets written off | - | 22 |
| Loss on disposal of property, plant and equipment | - | 10 |
| | <u>-</u> | <u>10</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

6. Taxation

| | Consolidated | |
|---|------------------------|------------------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| Current income tax | | |
| - Current income tax charge | 508 | 268 |
| - Loss transferred under Group Relief Scheme | (396) | (207) |
| - Adjustments in respect of previous years | (14) | 371 |
| Deferred income tax | | |
| - Relating to the origination and reversal of temporary differences | (917) | 475 |
| - Adjustments in respect of previous years | (184) | (29) |
| Tax (benefit)/expense | <u>(1,003)</u> | <u>878</u> |

A reconciliation between the tax expense and the product of accounting loss of the Group multiplied by the applicable tax rate for the year ended 30 June is as follows:

| | Consolidated | |
|---|------------------------|------------------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| Loss before taxation | <u>(5,756)</u> | <u>(1,697)</u> |
| Tax at the domestic rates applicable to profits in the countries where the Group operates | (673) | (118) |
| Release of deferred tax liability on intangible assets | (47) | (47) |
| Non-deductible expenses | 174 | 206 |
| Non-taxable income | (123) | (363) |
| Partial tax exemption | (37) | (46) |
| Deferred tax assets not recognised | 751 | 1,807 |
| Utilisation of previously unrecognised tax losses | (262) | (285) |
| Adjustments in respect of previous years | (198) | 342 |
| Enhanced tax credits | (588) | (630) |
| Others | - | 12 |
| Tax (benefit)/expense | <u>(1,003)</u> | <u>878</u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

6. Taxation (cont'd)

Deferred taxation as at 30 June relates to the following:

| | Consolidated balance sheet | | Consolidated statement of comprehensive income | |
|---|-------------------------------|-----------------|---|-----------------|
| | 2017 S\$'000 | 2016 S\$'000 | 2017 S\$'000 | 2016 S\$'000 |
| Deferred tax liabilities | | | | |
| Differences in depreciation | (1,138) | (1,876) | (734) | (353) |
| Intangible assets | (339) | (385) | (46) | (47) |
| Unutilised capital allowances | 184 | 247 | 63 | 52 |
| Unutilised tax losses | 56 | 60 | 4 | (60) |
| Unutilised donations | 13 | – | (13) | – |
| | <u>(1,224)</u> | <u>(1,954)</u> | | |
| Deferred tax assets | | | | |
| Unutilised tax losses | 2,662 | 2,688 | 40 | 790 |
| Unutilised capital allowances | 512 | 467 | (45) | 83 |
| Provisions | 710 | 340 | (370) | 108 |
| Differences in depreciation | (95) | (129) | (34) | (104) |
| Intangible assets | (1,022) | (988) | 34 | (23) |
| | <u>2,767</u> | <u>2,378</u> | <u>(1,101)</u> | <u>446</u> |
| | | | Consolidated | |
| | | | 2017 | 2016 |
| | | | S\$'000 | S\$'000 |
| The directors estimate that the potential future income tax benefit at 30 June in respect of revenue tax losses of certain subsidiaries not brought to account is | | | <u>6,324</u> | <u>5,639</u> |

The benefit will only be obtained if –

- these subsidiaries derive future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- these subsidiaries continue to be in the same trade and there is no substantial change in their shareholdings; and
- there are no changes in tax legislation that adversely affect these subsidiaries' ability to realise the benefit.

Tax Consolidation Legislation

Zicom Group Limited and its wholly-owned Australian subsidiaries have not elected to form a tax consolidated group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

7. Earnings per share

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

Diluted earnings per share is calculated by dividing the Group's net profit or loss attributable to equity holders of the Parent by the adjusted weighted average number of ordinary shares which takes into account the effects of all dilutive potential ordinary shares comprising share options granted to employees.

| | | Consolidated | |
|-----|---|----------------------------------|-------------|
| | | 2017 | 2016 |
| | | S\$'000 | S\$'000 |
| (a) | Earnings used in calculating basic and diluted earnings per share | | |
| | Net loss attributable to equity holders of the Parent | (4,620) | (2,086) |
| | | No. of shares (Thousands) | |
| (b) | Weighted average number of ordinary shares for basic and diluted earnings per share | 217,141 | 216,703 |
| | | Singapore cents | |
| (c) | Earnings per share | | |
| | Basic | (2.13) | (0.96) |
| | Diluted | (2.13) | (0.96) |

There were 2,680,000 (2016: 2,750,000) share options excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for the current period presented.

There have been no transactions involving ordinary or potential ordinary shares which occurred between the reporting date and the date of completion of these financial statements.

8. Dividends

| | | Consolidated | |
|---|--|---------------------|--------------|
| | | 2017 | 2016 |
| | | S\$'000 | S\$'000 |
| Declared and paid during the financial year: | | | |
| - | Final unfranked dividend for 2016: 0.20 Australian cents per share | 459 | - |
| - | Interim unfranked dividend for 2017: 0.15 Australian cents per share | 350 | - |
| - | Final unfranked dividend for 2015: 0.35 Australian cents per share | - | 774 |
| - | Interim unfranked dividend for 2016: 0.25 Australian cents per share | - | 562 |
| | | 809 | 1,336 |
| Proposed but not recognised as a liability as at 30 June: | | | |
| - | Final unfranked dividend for 2017: nil (2016: 0.20 Australian cents per share) | - | 442 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

9. Property, plant and equipment

| Consolidated | Freehold land | Leasehold buildings | Buildings | Machinery under installation or construction | Plant and equipment | Leasehold improvements | Motor vehicles | Total |
|---------------------------------|---------------|---------------------|-----------|--|---------------------|------------------------|----------------|---------|
| | | | | | | | | |
| Cost | | | | | | | | |
| At 1.7.2015 | 1,763 | 10,434 | 4,480 | 98 | 36,860 | 2,778 | 2,098 | 58,511 |
| Currency realignment | (62) | (3) | (158) | (3) | (324) | (12) | (29) | (591) |
| Additions | - | - | - | - | 1,281 | 377 | 173 | 1,831 |
| Disposals | - | - | - | - | (314) | - | (199) | (513) |
| Reclassification to inventories | - | - | - | - | (1,633) | - | - | (1,633) |
| Reclassification | - | - | - | (95) | 95 | - | - | - |
| Write off | - | - | - | - | (351) | (134) | - | (485) |
| At 30.6.2016 | 1,701 | 10,431 | 4,322 | - | 35,614 | 3,009 | 2,043 | 57,120 |
| Currency realignment | 93 | 4 | 236 | - | 254 | 6 | 29 | 622 |
| Additions | - | - | - | 81 | 2,526 | 23 | 360 | 2,990 |
| Disposals | - | - | - | - | (275) | - | (389) | (664) |
| Reclassification to inventories | - | - | - | - | (1,246) | - | - | (1,246) |
| Write off | - | - | - | - | (425) | - | - | (425) |
| At 30.6.2017 | 1,794 | 10,435 | 4,558 | 81 | 36,448 | 3,038 | 2,043 | 58,397 |
| Accumulated depreciation | | | | | | | | |
| At 1.7.2015 | - | 3,920 | 1,297 | - | 21,217 | 2,055 | 1,353 | 29,842 |
| Currency realignment | - | (3) | (49) | - | (207) | (9) | (19) | (287) |
| Charge for 2016 | - | 266 | 220 | - | 3,501 | 301 | 248 | 4,536 |
| Disposals | - | - | - | - | (309) | - | (135) | (444) |
| Reclassification to inventories | - | - | - | - | (806) | - | - | (806) |
| Write off | - | - | - | - | (315) | (134) | - | (449) |
| At 30.6.2016 | - | 4,183 | 1,468 | - | 23,081 | 2,213 | 1,447 | 32,392 |
| Currency realignment | - | 4 | 83 | - | 237 | 7 | 22 | 353 |
| Charge for 2017 | - | 267 | 225 | - | 3,351 | 233 | 224 | 4,300 |
| Disposals | - | - | - | - | (265) | - | (376) | (641) |
| Reclassification to inventories | - | - | - | - | (558) | - | - | (558) |
| Write off | - | - | - | - | (418) | - | - | (418) |
| At 30.6.2017 | - | 4,454 | 1,776 | - | 25,428 | 2,453 | 1,317 | 35,428 |
| Net carrying value | | | | | | | | |
| At 30.6.2017 | 1,794 | 5,981 | 2,782 | 81 | 11,020 | 585 | 726 | 22,969 |
| At 30.6.2016 | 1,701 | 6,248 | 2,854 | - | 12,533 | 796 | 596 | 24,728 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

9. Property, plant and equipment (cont'd)

- (a) The net book value of property, plant and equipment held under hire purchase are as follows:

| | Consolidated | |
|---------------------|-----------------|-----------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| Motor vehicles | 408 | 282 |
| Plant and equipment | 1,414 | 2,145 |
| | <u>1,822</u> | <u>2,427</u> |

Leased assets are pledged as security for the related finance lease liabilities (note 17).

- (b) During the year, the Group acquired property, plant and equipment with an aggregate cost of S\$2,990,000 (2016: S\$1,831,000) of which S\$651,000 (2016: S\$766,000) were acquired by means of hire purchase financing and S\$43,000 (2016: S\$78,000) was acquired by means of loan financing. Cash payments of S\$1,777,000 (2016: S\$794,000) were made to purchase property, plant and equipment. Included in additions is an amount of S\$519,000 (2016: S\$193,000) which was previously included in stock but was converted and capitalised as fixed assets during the current financial year.
- (c) During the financial year, the Group disposed of property, plant and equipment with an aggregate net book value of S\$23,000 (2016: S\$69,000). Sales proceeds amounting to S\$94,000 (2016: S\$115,000) were received in cash.
- (d) During the financial year, the Group wrote off property, plant and equipment with an aggregate net book value of approximately S\$7,000 (2016: S\$36,000).
- (e) The net book value of property, plant and equipment pledged as security are as follows:

| | Consolidated | |
|-----------------------------|-----------------|-----------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| Leasehold buildings | 2,623 | 2,748 |
| Freehold land and buildings | 4,576 | 4,555 |
| Motor vehicles | 110 | 75 |
| | <u>7,309</u> | <u>7,378</u> |

Please refer to note 17 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

10. Intangible assets

| Consolidated | Cost | Customer list S\$'000 | Developed technology S\$'000 | Goodwill S\$'000 | Development expenditure S\$'000 | Club membership S\$'000 | Computer software S\$'000 | Unpatented technology S\$'000 | Patented technology S\$'000 | Total S\$'000 |
|---------------------------------|------|--------------------------|---------------------------------|---------------------|------------------------------------|----------------------------|------------------------------|----------------------------------|--------------------------------|------------------|
| | | | | | | | | | | |
| At 1.7.2015 | | 918 | 1,141 | 6,977 | 5,155 | 10 | 2,259 | 3,721 | 197 | 20,378 |
| Currency realignment | | - | - | (58) | - | (1) | (16) | - | - | (75) |
| Additions | | - | - | - | 506 | - | 39 | - | 41 | 586 |
| Write off | | - | - | - | - | - | (32) | - | (18) | (50) |
| At 30.6.2016 | | 918 | 1,141 | 6,919 | 5,661 | 9 | 2,250 | 3,721 | 220 | 20,839 |
| Currency realignment | | - | - | 106 | - | 1 | 30 | - | - | 137 |
| Additions | | - | - | - | 1,007 | - | 68 | - | 56 | 1,131 |
| Reclassification to inventories | | - | - | - | (92) | - | - | - | - | (92) |
| At 30.6.2017 | | 918 | 1,141 | 7,025 | 6,576 | 10 | 2,348 | 3,721 | 276 | 22,015 |
| Accumulated amortisation | | | | | | | | | | |
| At 1.7.2015 | | 918 | 1,141 | - | 366 | - | 1,573 | 1,181 | 2 | 5,181 |
| Currency realignment | | - | - | - | - | - | (14) | - | - | (14) |
| Amortisation | | - | - | - | 541 | - | 249 | 274 | 4 | 1,068 |
| Write off | | - | - | - | - | - | (28) | - | - | (28) |
| At 30.6.2016 | | 918 | 1,141 | - | 907 | - | 1,780 | 1,455 | 6 | 6,207 |
| Currency realignment | | - | - | - | - | - | 27 | - | - | 27 |
| Amortisation | | - | - | - | 556 | - | 221 | 274 | 5 | 1,056 |
| Reclassification to inventories | | - | - | - | - | - | - | - | - | - |
| At 30.6.2017 | | 918 | 1,141 | - | 1,463 | - | 2,028 | 1,729 | 11 | 7,290 |
| Net carrying value | | | | | | | | | | |
| At 30 June 2017 | | - | - | 7,025 | 5,113 | 10 | 320 | 1,992 | 265 | 14,725 |
| At 30 June 2016 | | - | - | 6,919 | 4,754 | 9 | 470 | 2,266 | 214 | 14,632 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

10. Intangible assets (cont'd)

| | Development expenditure | Unpatented technology |
|--|------------------------------------|----------------------------------|
| Average remaining amortisation period (years) – 2017 | 5.2 | 7.4 |
| Average remaining amortisation period (years) – 2016 | 6.2 | 8.4 |

Assets by business segment:

Assets and investments in associates by business segment are summarised as follows:

| | Offshore marine, oil & gas machinery | Construction equipment | Precision engineering & technologies | Industrial & mobile hydraulics | Unallocated | Total |
|------------------------------|---|-----------------------------------|---|---|--------------------|---------------|
| Property plant and equipment | 3,211 | 16,267 | 1,290 | 8 | 2,193 | 22,969 |
| Intangible assets | 115 | 2,120 | 12,406 | 15 | 69 | 14,725 |
| Investments in associates | – | – | 9,448 | – | – | 9,448 |
| | 3,326 | 18,387 | 23,144 | 23 | 2,262 | 47,142 |

Offshore Marine, Oil and Gas Machinery

The assets in this segment relate predominantly to Zicom Private Limited and Zicom Equipment Private Limited. This segment continues to generate positive cash flows with a pipeline of contracts and margin on product sales and projects effectively supporting no indicators of impairment.

Construction Equipment

The assets in this segment relate predominantly to Foundation Associates Engineering Private Limited, Cesco Australia Limited and Zicom Cesco Engineering Co. Ltd. This segment manufactures and supply concrete mixers and foundation equipment including equipment rental continues to generate positive cash flows. Due to the goodwill that arose at acquisition of Cesco Australia Limited, an impairment analysis is performed annually (refer below for discussion on Zicom Group Limited).

Precision Engineering and Technologies

Companies included in this segment are Sys-Mac Automation Engineering Pte Ltd, Orion Systems Integration Pte Ltd, Biobot Surgical Pte Ltd (entities discussed below) and investments in associates (refer to note 12 and below). Due to the goodwill that arose at acquisition of these entities, an annual assessment is performed.

Industrial and Mobile Hydraulics

As noted above, there are no material assets in this segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

10. Intangible assets (cont'd)

Unallocated

The most significant asset in this segment represents leasehold building which is carried at historical cost adjusted for accumulated depreciation. Market valuations performed on significant buildings in the current financial year have confirmed that there are no impairment indicators.

Impairment tests for goodwill and associates

The Group did not have any intangible assets with indefinite useful life as at 30 June 2017. Goodwill acquired through business combinations, are allocated to the individual entity which is also the cash generating unit (CGU). These entities fall within the Precision Engineering and Technologies (PET) and Construction Equipment (CE) segments of the Group as outlined above.

| Consolidated | As at | As at | Basis on which recoverable values are determined | Pre-tax discount rate per annum | |
|--|--------------|--------------|--|---------------------------------|------|
| | 30.6.2017 | 30.6.2016 | | 2017 | 2016 |
| | S\$'000 | S\$'000 | | | |
| Carrying value of capitalised goodwill based on cash-generating units | | | | | |
| Sys-Mac Automation Engineering Pte Ltd | 2,975 | 2,975 | Value in use | 15% | 22% |
| Zicom Group Limited | 2,070 | 1,964 | Value in use | 14% | 12% |
| Orion Systems Integration Pte Ltd ("Orion") | 664 | 664 | Value in use | 24% | 28% |
| Biobot Surgical Pte Ltd ("BBS") | 1,316 | 1,316 | Value in use | 17% | 16% |
| | <u>7,025</u> | <u>6,919</u> | | | |

In accordance with AASB 136, the carrying value of the Group's goodwill on acquisition as at 30 June 2017 was assessed for impairment.

In addition to this, the Group has continued to invest in businesses in the PET segment. The businesses in the PET segment are in different phases of development with some of the businesses close to commercialisation and others still firmly in the product development phase. For all businesses in the PET segment there were no triggers associated with technical feasibility including ability to sell, complete or use the projects, nor any indicators linked to the generation of probable future economic benefits from the projects.

The recoverable amount of each CGU is determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five year period. Budgeted revenue and gross margin in the financial budgets are based on past performance and its expectation of market development. Long term growth rate of 1% was used for the above cash generating units with the exception of Orion for which 0% was used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

10. Intangible assets (cont'd)

Impairment tests for goodwill and associates (cont'd)

Zicom Group Limited

Goodwill in this CGU relates mainly to Cesco Australia Limited that operates in the construction industry in the manufacturing of cement mixers. The recoverable amount of the CGU has been determined based on value in use calculation using cash flow projections from financial budgets that was approved by management covering a 5 year period. The cash flows beyond 5 years were extrapolated using a long term growth rate of 1% based on market information consistent for the industry it operates in. The cash flows for the first 5 years included growth of between 5% and 8%.

Sys-Mac Automation Engineering Pte Ltd ("Sys-Mac")

Sys-Mac is involved in contract manufacturing and system integration which includes machining works, design and build of customised automation equipment and systems. The recoverable amount of the CGU has been determined based on value in use calculation using cash flow projections from financial budgets that was approved by management covering a 5 year period. The cash flows beyond 5 years were extrapolated using a long term growth rate of 1% based on market information consistent for the industry it operates in. The cash flows for the first 5 years included growth of between 15% and 25%.

Biobot Surgical Pte Ltd ("BBS")

BBS is a medical technology CGU and its main product is the iSR'obot™ Mona Lisa, an intelligent robotic prostate biopsy device. BBS will be moving into commercialisation of its product in the next 12 months. The recoverable amount of the CGU has been determined based on value in use calculation using cash flow projections from financial budgets that was approved by management covering a 5 year period. The projected cash flows reflect initial outflows through early stage commercialisation and then ramp up based on market share assumptions through the increased demand for its products, consumables and services. The cash flows beyond 5 years were extrapolated using a long term growth rate of 1% based on market information consistent for the industry it operates in. The cash flows for the first 5 years included growth of between 0% and 60%.

Orion Systems Integration Pte Ltd ("Orion")

Orion provides equipment with high performance flip chip applications to companies involved in back-end semiconductor production. Its signature product is Phoenix Quadpro, a high speed, fine pitch flip chip bonder. Orion completed its first year of commercial production. The recoverable amount of the CGU has been determined based on value in use calculation using cash flow projections from financial budgets that was approved by management covering a 5 year period. The projected cash flows reflect early ramp up in 2019 based on market share assumptions through the increased demand for its products. The cash flows do not extend beyond 5 years as this is considered to be the expected product life cycle. The cash flows for the first 5 years included growth of between -20% (in the last year) and 5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

10. Intangible assets (cont'd)

Impairment tests for goodwill and associates (cont'd)

Associates

Curiox Biosystems Pte Ltd ("Curiox")

Curiox is a bioinstrumentation company which is accounted for as an associate as disclosed in note 12. It is involved in the development and commercialisation of innovative assay platforms based on its expertise in surface chemistry and engineering. It has introduced a series of DropArray Microplates. Curiox will be moving into commercialisation of its DA-Cell Plate and Washing Station in the next 12 months. The recoverable amount of Curiox has been determined based on value in use calculation using cash flow projections from financial budgets that was approved by management covering a 5 year period. The projected cash flows reflect initial outflows through early stage commercialisation and then ramp up based on market share assumptions through the increased demand for its products, consumables and services. The cash flows beyond 5 years were extrapolated using a long term growth rate of 1% based on market information consistent for the industry it operates in. The cash flows for the first 5 years included growth of between 0% and 60%.

Interests in the rest of the associates as disclosed in note 12 were recently acquired as such their current carrying values, in the absence of an impairment trigger, were considered representative of fair value. These associates are predominantly in the research and development phase of their products.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions:

The calculations of value in use (VIU) for the CGUs are most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Market share assumptions
- Growth rate estimates
- Timing of cash flows

Budgeted gross margins – Gross margins are based on average values achieved in the three years preceding the start of the budget period or if unavailable, based on management assessment of the markets. These are increased over the budget period for anticipated efficiency improvements. Decreased demand can lead to a decline in gross margin. A decrease in gross margin of 10% would not result in an impairment adjustment. Decreases greater than 10% may result in impairment adjustments. This applies to all CGUs where VIU assessment was required to be performed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

10. Intangible assets (cont'd)

Impairment tests for goodwill and associates (cont'd)

Pre-tax discount rates – Discount rate reflect the current market assessment of the risk specific to the CGUs, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. In determining appropriate discount rates for each unit, regard has been given to the weighted average cost of capital of the entity as a whole and the yield on a 10-15 year government bond at the beginning of the budgeted year. CGU's specific risk is incorporated in the discount rate by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. A rise in the pre-tax discount rate by 5% or above may result in impairment adjustments for all CGUs.

Market share assumptions – For businesses that are about to commence commercialisation such as Biobot and Curiox, cash flows in the first 5 years included in the budget are determined with reference to industry data which effectively drives the growth profile for these businesses over the initial 5 year period. These assumptions are important as management assesses how the CGU's position relative to its competitors may change over the forecast period. Management is expecting its businesses to be taking market share as the CGUs will be selling new technology. An annual decrease in excess of 25% in forecast revenues based on market information may result in an impairment adjustment.

Growth rates – These are used to extrapolate cash flow projections beyond the period covered by the most recent budgets and are based on management's assessment of the markets and do not exceed the long-term average growth rate for the industries relevant to the CGUs. Management acknowledges the speed of technological change and the possibility of new entrants can have a significant impact on growth rates. Growth rates can also impact on the margins achieved by the CGUs as discussed above. Should the long term growth rate reduce by 1%, there is still no impairment required.

Timing of cash flows – As indicated above, a number of the CGUs in the PET segment are in different stages of development with some businesses in early stage development (research and development) and some of them close to commercialisation with some having started its journey of commercialisation. For the businesses that are close to commercialisation, in particular Biobot and Curiox, a 3 year delay in cash flows will not result in impairment. A delay of greater than 3 years will result in impairment. The rest of the businesses in the PET segment are predominantly in the research and development phase of their respective products. There are currently no indicators that these products will not continue to the commercialisation phase.

Summary of sensitivity to changes in assumptions

Management believe that no reasonably possible change in any of the above key assumptions would cause the carrying values of these CGUs to materially exceed their recoverable amounts.

For all of the above CGUs and for Curiox, the calculated value in use were in excess of the carrying amounts of the assets and as such, there were no impairment adjustment required for the financial years ended 30 June 2017 and 2016 for goodwill as their recoverable values were in excess of their carrying values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

11. Investments in subsidiaries

| | Parent Entity | |
|---|---------------|---------------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Investments in controlled entities, at cost | 54,544 | 54,544 |
| Less: Impairment loss | (3,573) | (3,947) |
| | <u>50,971</u> | <u>50,597</u> |

The consolidated financial statements include the financial statements of Zicom Group Limited and the subsidiaries listed in the following table.

The interest in each controlled entity has been adjusted to assess recoverable amounts on the basis of their underlying assets.

| Name of Company | Country of incorporation/ formation | Carrying value of Parent Entity investment | | Percentage of equity held by the Group | |
|---|--|--|---------------|---|------|
| | | 2017 | 2016 | 2017 | 2016 |
| | | S\$'000 | S\$'000 | % | % |
| Held by the Company: | | | | | |
| Cesco Australia Limited | Australia | 6,796 | 6,422 | 100 | 100 |
| Zicom Holdings Private Limited | Singapore | 44,175 | 44,175 | 100 | 100 |
| Controlled entities held through subsidiary companies: | | | | | |
| Cesco Equipment Pty Ltd | Australia | – | – | 100 | 100 |
| Zicom Private Limited | Singapore | – | – | 100 | 100 |
| Zicom Equipment Private Limited | Singapore | – | – | 100 | 100 |
| Foundation Associates Engineering Private Limited | Singapore | – | – | 100 | 100 |
| FAE Construction Pte Ltd | Singapore | – | – | 100 | 100 |
| FAEQUIP Corporation (a) | Philippines | – | – | 100 | – |
| Sys-Mac Automation Engineering Pte Ltd | Singapore | – | – | 100 | 100 |
| MTA-Sysmac Automation Pte Ltd | Singapore | – | – | 61 | 61 |
| SAEdge Vision Solutions Pte Ltd | Singapore | – | – | 96 | 96 |
| iPtec Pte Ltd | Singapore | – | – | 100 | 100 |
| Orion Systems Integration Pte Ltd (b) | Singapore | – | – | 98 | 84 |
| Biobot Surgical Pte Ltd | Singapore | – | – | 95 | 95 |
| Zicom MedTacc Private Limited | Singapore | – | – | 100 | 100 |
| PT Sys-Mac Indonesia | Indonesia | – | – | 100 | 100 |
| Zicom Cesco Engineering Co. Ltd | Thailand | – | – | 100 | 100 |
| Zicom Cesco Thai Co. Ltd | Thailand | – | – | 100 | 100 |
| Zicom Thai Hydraulics Co. Ltd | Thailand | – | – | 100 | 100 |
| FA Geotech Equipment Sdn Bhd | Malaysia | – | – | 100 | 100 |
| Deqing Cesco Machinery Co. Ltd | China | – | – | 100 | 100 |
| | | <u>50,971</u> | <u>50,597</u> | | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

11. Investments in subsidiaries (cont'd)

(a) FAEQUIP Corporation ("FAEQUIP")

On 21 September 2016, FAEQUIP Corporation was incorporated in the Philippines by Foundation Associates Engineering Private Limited, a wholly-owned subsidiary of Zicom Holdings Private Limited ("ZHPL"), with a paid up capital of PHP9,500,000 (S\$278,000). FAEQUIP is principally engaged in trading and rental of foundation equipment and the provision of construction services.

(b) Orion Systems Integration Pte Ltd ("Orion")

On 30 June 2017, ZHPL increased its investment in Orion by way of capitalisation of an amount of S\$5,063,000 owed by Orion to ZHPL, increasing the Group's interest in Orion from 84.00% to 98.18%. The difference between the amount by which the non-controlling interest was adjusted and the fair value of consideration paid of S\$276,000 has been recognised directly in equity.

Entity subject to class order relief

Pursuant to the Class Order 98/1418, relief has been granted to Cesco Australia Limited ("CAL") and Cesco Equipment Pty Ltd ("CEPL") from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

As a condition for the Class Order, a Deed of Cross Guarantee was executed between Zicom Group Limited ("ZGL") and CAL on 15 May 2008. The effect of the Deed is that ZGL has guaranteed to pay any deficiency in the event of winding up of CAL or if CAL does not meet its obligations under the terms of overdraft, loans, leases or other liabilities subject to the guarantee.

CAL has also given a similar guarantee in the event that ZGL is wound up or if it does not meet its obligations under the terms of overdraft, loans and leases or other liabilities subject to the guarantee.

On 9 May 2013, CEPL executed a Deed of Assumption with ZGL so that CEPL is joined to the Deed of Cross Guarantee and assumes liability under and be bound by the Deed of Cross Guarantee as if CEPL was a Group Entity when the Deed of Cross Guarantee was executed.

The consolidated Income Statement and Balance Sheet of the entities that are members of the Closed Group are as follows:

Consolidated Income Statement

| | Closed Group | |
|---|--------------|----------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Profit from continuing activities before taxation | 1,248 | 1,663 |
| Income tax expense | - | - |
| Net profit for the year | 1,248 | 1,663 |
| Accumulated losses at the beginning of year | (23,651) | (24,352) |
| Forfeiture/expiry of employee share options | 3 | 374 |
| Dividends paid | (809) | (1,336) |
| Accumulated losses at the end of year | (23,209) | (23,651) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

11. Investments in subsidiaries (cont'd)

Consolidated Balance Sheet

| | Closed Group | |
|--|-----------------|-----------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| Non-current assets | | |
| Property, plant and equipment | 456 | 243 |
| Intangible assets | 377 | 357 |
| Investments in subsidiaries | 44,175 | 44,175 |
| | <u>45,008</u> | <u>44,775</u> |
| Current assets | | |
| Cash and bank balances | 1,772 | 1,538 |
| Inventories | 3,229 | 3,153 |
| Trade and other receivables | 3,549 | 3,314 |
| Prepayments | 15 | 11 |
| | <u>8,565</u> | <u>8,016</u> |
| Current liabilities | | |
| Payables | 3,492 | 3,503 |
| Interest-bearing liabilities | 39 | 21 |
| Provisions | 467 | 440 |
| | <u>3,998</u> | <u>3,964</u> |
| NET CURRENT ASSETS | <u>4,567</u> | <u>4,052</u> |
| Non-current liabilities | | |
| Interest-bearing liabilities | 61 | 60 |
| Provisions | 115 | 86 |
| | <u>176</u> | <u>146</u> |
| NET ASSETS | <u>49,399</u> | <u>48,681</u> |
| Equity attributable to equity holders of the Parent | | |
| Share capital | 72,322 | 72,322 |
| Reserves | 286 | 10 |
| Accumulated losses | (23,209) | (23,651) |
| TOTAL EQUITY | <u>49,399</u> | <u>48,681</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

12. Investments in associates

(a) Investment details

| | | Consolidated | |
|----------------------------------|------------------------------------|-----------------|-----------------|
| | | 2017 S\$'000 | 2016 S\$'000 |
| Held through subsidiaries | Principal place of business | | |
| Curiox Biosystems Pte Ltd | Singapore | 5,266 | 5,295 |
| HistoIndex Pte Ltd | Singapore | 1,301 | 1,591 |
| Endofotonics Pte Ltd | Singapore | 907 | – |
| BELKIN Laser Ltd | Israel | 1,374 | – |
| Pellucid Networks Pte Ltd | Singapore | 600 | – |
| | | 9,448 | 6,886 |

(b) Movements in carrying amount of the Group's investments in associates

Curiox Biosystems Pte Ltd ("Curiox")

Shareholdings held: 73.02% (2016: 72.62%)

| | Consolidated | |
|-------------------------------------|-----------------|-----------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| At beginning of year | 5,295 | 4,515 |
| Additional investment | 323 | 1,108 |
| Share of loss after income tax | (301) | (339) |
| Share of other comprehensive income | (19) | 8 |
| Unrealised profits | (32) | 3 |
| At end of year | 5,266 | 5,295 |

Zicom Holdings Private Limited ("ZHPL") has subscribed for a total of 299,000 rights shares in Curiox pursuant to a non-renounceable rights issue, such entitlement to be taken up in two tranches. On 16 June 2017, 161,000 preference shares were allotted to ZHPL for a cash consideration of S\$323,000, thereby increasing the Group's interest in Curiox to 73.02%. Payment for the remaining tranche amounting to S\$276,000 will be due on 1 September 2017. Upon completion of this rights issue, the Group's equity interest in Curiox will become 72.75%.

Although ZHPL holds the majority of voting rights in Curiox, it does not have the power and practical ability to direct the relevant activities of Curiox unilaterally and hence, Curiox remains an associate of the Group as at 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

12. Investments in associates (cont'd)

(b) Movements in carrying amount of the Group's investments in associates (cont'd)

HistoIndex Pte Ltd ("HistoIndex")

Shareholdings held: 10.88% (2016: 10.88%)

| | Consolidated | |
|-------------------------------------|-----------------|-----------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| At beginning of year | 1,591 | 500 |
| Additional investment | – | 1,139 |
| Share of loss after income tax | (288) | (43) |
| Share of other comprehensive income | – | 2 |
| Unrealised profits | (2) | (7) |
| At end of year | <u>1,301</u> | <u>1,591</u> |

HistoIndex entered into a convertible loan agreement dated 1 June 2017 with Zicom MedTacc Private Limited ("ZMT") and various investors, collectively the "Lenders", to which the Lenders have granted convertible loans aggregating S\$1,800,000 to HistoIndex. The convertible loans earn interest at 5% per annum and may be converted into ordinary shares at a discounted price upon the occurrence of pre-defined events or repaid upon maturity on 31 May 2020.

Although the Group holds less than 20% of equity interest, the Group has the ability to exercise significant influence through both its shareholdings and the Chairman's active participation on HistoIndex Board of Directors.

Endofotonics Pte Ltd ("Endofotonics")

Shareholdings held: 21.89% (2016: nil%)

| | Consolidated | |
|--------------------------------|-----------------|-----------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| At beginning of year | – | – |
| Initial investment | 1,000 | – |
| Share of loss after income tax | (93) | – |
| At end of year | <u>907</u> | <u>–</u> |

On 25 November 2016, ZMT acquired 21.89% equity interest in Endofotonics Pte Ltd for a cash consideration of S\$1,000,000. Under the terms of the investment, ZMT can acquire additional shares through options and achieving certain milestones. The changes in fair value of the options was assessed as being not significant as at 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

12. Investments in associates (cont'd)

(b) Movements in carrying amount of the Group's investments in associates (cont'd)

BELKIN Laser Ltd ("BELKIN")

Shareholdings held: 16.66% (2016: nil%)

| | Consolidated | |
|--------------------------------|--------------|---------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| At beginning of year | - | - |
| Initial investment | 1,416 | - |
| Share of loss after income tax | (42) | - |
| At end of year | 1,374 | - |

On 2 February 2017, ZMT acquired 11.04% equity interest in BELKIN Laser Ltd, a medical device company based in Israel, for a cash consideration of US\$471,000. On 27 June 2017, ZMT injected an additional US\$539,000, increasing the Group's interest in BELKIN to 16.66%.

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

Pellucid Networks Pte Ltd ("Pellucid")

Shareholdings held: 8.23% (2016: nil%)

As part of the Accelerator Funding Scheme, Spring Singapore ("SPRING") co-invested with ZMT in Pellucid Networks Pte Ltd on 1:1 basis and grant call options to ZMT to acquire their investments at nominal annual compounding interest. As at 30 June 2017, ZMT has invested S\$600,000 cash for an equity interest of 8.23% with the remaining S\$400,000 injected subsequent to year end. Upon completion, both SPRING and ZMT will each hold 11.51% equity interest in Pellucid.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

12. Investments in associates (cont'd)

(c) Summarised financial information

The following table illustrates summarised financial information relating to the Group's material investment in associate:

| | Curiox | |
|--|---------------|--------------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Current assets | 2,198 | 2,012 |
| Non-current assets | 623 | 423 |
| | <u>2,821</u> | <u>2,435</u> |
| Current liabilities | (556) | (393) |
| Net assets | 2,265 | 2,042 |
| Add: Fair value adjustments arising from acquisition | 328 | 385 |
| | <u>2,593</u> | <u>2,427</u> |
| Proportion of Group's investment | 73.02% | 72.62% |
| Share of net assets | 1,893 | 1,762 |
| Goodwill | 3,478 | 3,676 |
| Less: Unrealised profits | (103) | (71) |
| Less: Other equity transactions | (2) | (72) |
| Group's carrying amount of investment in associate | <u>5,266</u> | <u>5,295</u> |
| Results: | | |
| Revenue | 1,955 | 1,852 |
| Cost of goods sold | (267) | (246) |
| | 1,688 | 1,606 |
| Other income | 272 | 280 |
| Operating expenses | (2,309) | (2,296) |
| Loss before tax | (349) | (410) |
| Income tax expense | (2) | (2) |
| | (351) | (412) |
| Add: Fair value adjustments arising from acquisition | (60) | (30) |
| Net loss for the year | (411) | (442) |
| Other comprehensive income | (26) | 9 |
| Total comprehensive income | <u>(437)</u> | <u>(433)</u> |
| Group's share of loss for the year | <u>(301)</u> | <u>(339)</u> |
| Group's share of other comprehensive income | <u>(19)</u> | <u>8</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

13. Inventories

| | Consolidated | |
|--|---------------------|---------------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Raw materials/trading stocks (at cost or net realisable value) | 15,437 | 15,504 |
| Work-in-progress (at cost) | 4,792 | 4,371 |
| Finished goods (at cost) | 2,171 | 1,762 |
| Stocks-in-transit (at cost) | 745 | 790 |
| Total inventories at lower of cost and net realisable value | <u>23,145</u> | <u>22,427</u> |

Inventories recognised as cost of sales for the year ended 30 June 2017 totalled S\$54,780,000 (2016: S\$75,886,000) for the Group.

14. Current assets - receivables

| | Consolidated | |
|-----------------------------------|---------------------|---------------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Trade receivables (a) | 15,502 | 12,824 |
| Allowance for impairment loss (b) | <u>(680)</u> | <u>(309)</u> |
| | 14,822 | 12,515 |
| Advance payments to suppliers | 2,416 | 1,360 |
| Deposits | 86 | 90 |
| Related party receivables (c): | | |
| - Associates | | |
| - trade | 278 | 74 |
| - non-trade | 233 | 32 |
| - Other related parties | | |
| - trade | 61 | 4 |
| - non-trade | 3 | - |
| Other receivables | <u>1,296</u> | <u>1,437</u> |
| | <u>19,195</u> | <u>15,512</u> |

(a) Please refer to note 21 (d) for the ageing analysis of trade receivables past due but not impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

14. Current assets - receivables (cont'd)

- (b) Trade and other receivables are non-interest bearing and are generally due when invoiced or on 30 to 60 days' terms. An allowance for impairment loss is recognised when there is objective evidence that an individual receivable is impaired.

The Group has trade and other receivables that were impaired at the balance sheet date and the movements in the provision for impairment are as follows:

| | Consolidated | | | |
|----------------------------------|-----------------------|---------|-----------------------|---------|
| | Individually impaired | | | |
| | Trade receivables | | Non-trade receivables | |
| | 2017 | 2016 | 2017 | 2016 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Nominal amounts | 680 | 309 | – | – |
| Less: allowance for impairment | (680) | (309) | – | – |
| | – | – | – | – |
| Movements in allowance accounts: | | | | |
| As at 1 July | 309 | 215 | – | 26 |
| Charge for the year | 519 | 200 | – | – |
| Written off | (44) | (66) | – | (26) |
| Unused amounts reversed | (107) | (40) | – | – |
| Currency realignment | 3 | – | – | – |
| As at 30 June | 680 | 309 | – | – |

- (c) For related party receivables, please refer to note 23 for terms and conditions.

15. Gross amount due from/(to) customers for contract work

| | Consolidated | |
|---|--------------|----------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Contract costs incurred to date | 4,005 | 42,451 |
| Recognised profits to date | 2,369 | 12,976 |
| | 6,374 | 55,427 |
| Progress billings | (3,088) | (46,272) |
| Amount due from customers for contract work, net | 3,286 | 9,155 |
| Gross amount due from customers for contract work | 3,305 | 11,735 |
| Gross amount due to customers for contract work | (19) | (2,580) |
| | 3,286 | 9,155 |

Revenue recognised on projects is disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

16. Current liabilities - payables

| | Consolidated | |
|---------------------------------|------------------------|------------------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| Trade payables and accruals (a) | 16,095 | 16,670 |
| Advance received from customers | 3,528 | 1,174 |
| Related party payables (b) | | |
| - Associates | | |
| - trade | 21 | - |
| - Other related parties | | |
| - trade | 9 | 1 |
| - non-trade | 9 | 52 |
| Other payables | 265 | 279 |
| Unrealised loss on derivatives | 64 | - |
| | <u>19,991</u> | <u>18,176</u> |

(a) All amounts are non-interest bearing and are normally settled on 30 to 90 days' terms.

(b) For related parties' payables, please refer to note 23 for terms and conditions.

17. Interest-bearing liabilities

| | Consolidated | |
|-----------------------------|------------------------|------------------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| <i>Current</i> | | |
| Bank overdrafts (a) | 352 | 576 |
| Bills payable (b) | 4,164 | 1,930 |
| Factory loans (c) | 42 | 255 |
| Term loans (d) | 4,941 | 3,830 |
| Lease liabilities (note 25) | 436 | 761 |
| | <u>9,935</u> | <u>7,352</u> |
| <i>Non-current</i> | | |
| Factory loans (c) | - | 42 |
| Term loans (d) | 61 | 2,108 |
| Lease liabilities (note 25) | 591 | 434 |
| | <u>652</u> | <u>2,584</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

17. Interest-bearing liabilities (cont'd)

Details of the secured borrowings are as follows:

- (a) Bank overdraft amounting to S\$352,000 (2016: S\$221,000) which bears interest at floating rates ranging from 6.03% to 6.28% (2016: 6.00% to 6.50%) per annum is secured by corporate guarantee from Zicom Holdings Private Limited ("ZHPL").

Included in the remaining overdrafts of S\$355,000 outstanding as at 30 June 2016, S\$217,000 was secured by a corporate guarantee from Zicom Cesco Engineering Co. Ltd while S\$138,000 was secured by a legal mortgage on the subsidiary company's freehold land and buildings at 700/895 Moo 2, Amata Nakorn Industrial Estate, Chonburi, Thailand and a corporate guarantee from ZHPL. These overdrafts bore interest at floating rates of approximately 7.80% per annum.

- (b) Bills payable amounting to S\$3,976,000 (2016: S\$1,930,000) with an average maturity of 1 - 4 months (2016: 1 - 5 months) bear fixed interest rates until expiry, ranging from 2.40% to 3.55% (2016: 2.04% to 3.80%) per annum, at which point interest rate resets and are secured by a corporate guarantee given by ZHPL.

The remaining bills payable of S\$188,000 with a maturity of 2 months bears fixed interest rate of 3.69% per annum until expiry and is secured by a corporate guarantee from Zicom Cesco Engineering Co. Ltd.

- (c) Factory loan amounting to S\$42,000 (2016: S\$297,000 comprising current and long-term portions of S\$255,000 and S\$42,000 respectively) is repayable over 2 (2016: 14) remaining monthly instalments and bear interest at floating rates ranging from 2.90% to 3.05% (2016: 2.95%) per annum. It is secured by a legal mortgage on ZHPL's leasehold building at No. 9 Tuas Avenue 9 Singapore 639198 and a corporate guarantee from Zicom Group Limited.

- (d) Term loan amounting to S\$833,000 (2016: S\$1,833,000 comprising current and long-term portions of S\$1,000,000 and S\$833,000 respectively) which bears interest at floating rates ranging from 2.85% to 3.10% (2016: 2.70% to 3.20%) per annum is payable over 3 years and is secured by a corporate guarantee given by ZHPL.

Term loan amounting to S\$1,069,000 (2016: S\$2,043,000 comprising current and long-term portions of S\$1,029,000 and S\$1,014,000 respectively) bears interest at floating rate of approximately 3.65% (2016: 3.75%) per annum and is payable over 3 years. It is secured by a legal mortgage on the subsidiary company's freehold land and buildings at 700/895 Moo 2, Amata Nakorn Industrial Estate, Chonburi, Thailand and a corporate guarantee from ZHPL.

Term loan amounting to S\$200,000 (2016: S\$680,000 comprising current and long-term portions of S\$480,000 and S\$200,000 respectively) which bears interest at floating rates ranging from 2.90% to 3.05% (2016: 2.95%) per annum is payable over 5 years and is secured by a legal mortgage on ZHPL's leasehold building at No. 9 Tuas Avenue 9 Singapore 639198 and a corporate guarantee from Zicom Group Limited.

The remaining term loans amounting to S\$100,000 (2016: S\$82,000) comprising of current and long-term portions of S\$39,000 (2016: S\$21,000) and S\$61,000 (2016: S\$61,000) respectively which are secured by a fixed charge over 2 motor vehicles are payable over 3 to 4 years (2016: 4 years) and bear interest at fixed rates of 4.12% to 4.39% (2016: 4.12%) per annum.

Short term loans with tenures of 3 - 6 months (2016: 3 - 6 months) amounting to S\$2,800,000 (2016: S\$1,300,000) bear interest at fixed rates ranging from 2.77% to 3.24% (2016: 2.80% to 2.99%) per annum and is secured by a corporate guarantee given by ZHPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

17. Interest-bearing liabilities (cont'd)

(e) Financing facilities available

As at 30 June 2017, the Group had available S\$99,000,000 (2016: S\$116,000,000) of undrawn committed borrowing facilities and all bank covenants were complied with.

18. Provisions

| | Consolidated | |
|--|------------------------|------------------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| <i>Current</i> | | |
| Product warranties | 1,918 | 720 |
| Employee benefits | 363 | 303 |
| Reinstatement costs | – | 46 |
| | 2,281 | 1,069 |
| <i>Non-current</i> | | |
| Employee benefits | 242 | 231 |
| Reinstatement costs | 156 | 108 |
| | 398 | 339 |
| Movements in provision for warranties: | | |
| At beginning of year | 720 | 1,167 |
| Additional provision | 1,536 | 291 |
| Unused amounts reversed | (171) | (531) |
| Utilised | (166) | (210) |
| Currency realignment | (1) | 3 |
| At end of year | 1,918 | 720 |
| Warranty expense charged directly to profit or loss (note 5) | 4 | – |
| Movements in provision for employee benefits: | | |
| At beginning of year | 534 | 489 |
| Additional provision | 91 | 64 |
| Unused amounts reversed | (33) | (1) |
| Utilised | (16) | (2) |
| Currency realignment | 29 | (16) |
| At end of year | 605 | 534 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

18. Provisions (cont'd)

Movements in provision for reinstatement costs:

| | Consolidated | |
|----------------------|-----------------|-----------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| At beginning of year | 154 | 156 |
| Currency realignment | 2 | (2) |
| At end of year | 156 | 154 |

A provision is recognised for expected warranty claims on hydraulic deck machineries, gas processing plants and flip chip bonders supplied. Assumptions used to calculate these provisions were based on a certain percentage of sale values and past experience of the level of repairs and returns based on the two-year warranty period.

In accordance with the lease agreements, the Group must reinstate certain subsidiaries' leased premises in Singapore and Australia to its original condition at the end of the lease term. Because of the long-term nature of liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred.

19. Share capital

(a) Share Capital

| | Parent Entity | | Consolidated | |
|----------------------------|---------------------------|---------|--------------|--------|
| | 2017 | 2016 | 2017 | 2016 |
| | No. of shares (Thousands) | | S\$'000 | |
| Ordinary fully paid shares | 217,141 | 217,141 | 38,314 | 38,314 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

19. Share capital (cont'd)

(b) Movements in ordinary share capital

| | <u>Company</u> | <u>Consolidated</u> |
|---|--|---------------------|
| | Number of ordinary shares (Thousands) | S\$'000 |
| At 1 July 2015 | 215,522 | 37,862 |
| Issue of shares under Zicom Employee Share and Option Plan ("ZESOP") | 1,619 | 452 |
| At 30 June 2016 and 30 June 2017 | <u>217,141</u> | <u>38,314</u> |

During the last financial year, the Company issued and allotted a total of 1,190,000 and 429,000 ordinary shares fully paid at A\$0.18 and A\$0.17 per share respectively, under the ZESOP. Such shares ranked *pari passu* with the existing ordinary shares of the Company.

There were no movements during the current financial year.

20. Cash and cash equivalents

| | <u>Consolidated</u> | |
|---------------------------|---------------------|---------------|
| | <u>2017</u> | <u>2016</u> |
| | S\$'000 | S\$'000 |
| Cash at bank and in hand | 18,591 | 20,438 |
| Short-term fixed deposits | – | 119 |
| | <u>18,591</u> | <u>20,557</u> |

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following as at 30 June:

| | | |
|------------------------------|---------------|---------------|
| Cash and short-term deposits | 18,591 | 20,557 |
| Bank overdrafts | (352) | (576) |
| | <u>18,239</u> | <u>19,981</u> |

Cash at bank balance amounting to S\$234,000 as at 30 June 2017 (2016: S\$336,000) earned interest at floating rate based on daily bank deposit rates ranging from 0.30% to 2.16% (2016: 0.38% to 2.17%) per annum.

Short-term deposits are made for varying periods of 1 day to 3 months depending on the immediate cash requirements of the Group and earn interest at the respective short-term rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

21. Financial instruments

(a) Financial risk management objectives and policies

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks. The Group enters into derivative transactions, principally foreign currency forward contracts, purpose is to manage currency risk arising from the Group's operations and sources of finance. The Group does not apply hedge accounting for such derivatives.

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

(b) Interest rate risk

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

The Group's exposure to interest rate risk arises primarily from loans and borrowings which have floating interest rates. The Group's policy with respect to controlling this risk is linked to a regular review of the total debt position and assessment of the impact of adverse changes in interest rates applicable to new and existing debt facilities. Consideration is given to potential renewal of existing positions, alternative financing, alternative hedging positions and mix of fixed and variable interest rates. At the balance sheet date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

| | Consolidated | |
|------------------------------|--------------|--------------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| <i>Financial assets</i> | | |
| Cash and bank balances | 234 | 336 |
| <i>Financial liabilities</i> | | |
| Bank overdrafts | 352 | 576 |
| Factory loan | 42 | 297 |
| Term loans | 2,102 | 4,556 |
| | <u>2,496</u> | <u>5,429</u> |

Sensitivity analysis of interest rate risk

As at 30 June 2017, if interest rates had increased/decreased by 25 basis point with all other variables held constant, post-tax loss for the consolidated entity for the financial year would be S\$5,000 (2016: S\$11,000) higher/lower, as a result of the higher/lower interest rates. Accordingly, the Group's equity as at year-end will be (S\$5,000)/S\$5,000 (2016: (S\$11,000)/S\$11,000) lower/higher.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

21. Financial instruments (cont'd)

(c) Foreign currency risk

Foreign currency risk occurs as a result of the Group's transactions that are not denominated in their respective functional currencies. These transactions arise from the Group's ordinary course of business. The Group transacts business in various currencies and as a result, is largely exposed to movements in exchange rates of United States dollar, Sterling pound, Euro, Bangladeshi Taka and Australian dollar.

The Group manages its foreign exchange exposure by a policy of matching, as far as possible, receipts and payments in each individual currency. The Group also uses foreign currency forward contracts to hedge a portion of its future foreign exchange exposure purely as a hedging tool and does not take positions in currencies with a view to make speculative gains from currency movements.

The following sensitivity analysis is based on the foreign exchange risk exposure in existence at the balance sheet date. As at 30 June, if exchange rates had moved, as illustrated in the table below, with all other variables held constant, post-tax results and equity would have been affected as follows:

| Consolidated | 2017 | 2016 |
|------------------------------|-------------|-------------|
| | S\$'000 | S\$'000 |
| USD | | |
| - strengthened 1% (2016: 5%) | 42 | - |
| - weakened 2% (2016: 2%) | (83) | - |
| EURO | | |
| - strengthened 4% (2016: 3%) | 24 | (12) |
| - weakened 2% (2016: 3%) | (12) | 12 |
| AUD | | |
| - strengthened 3% (2016: 3%) | 30 | 14 |
| - weakened 3% (2016: 3%) | (30) | (14) |
| GBP | | |
| - strengthened 2% (2016: 5%) | (1) | (8) |
| - weakened 2% (2016: 5%) | 1 | 8 |
| BDT | | |
| - strengthened 2% (2016: 2%) | (3) | 10 |
| - weakened 2% (2016: 2%) | 3 | (10) |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

21. Financial instruments (cont'd)

(d) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. Credit risk is monitored through careful selection of customers and their balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts has not been significant.

Credit risk concentration profile

The Group determines concentration of credit risk by monitoring the country profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the balance sheet date is as follows:

| | Consolidated | | | |
|----------------------------|---------------|------------|---------------|------------|
| | 2017 | | 2016 | |
| | S\$'000 | % of total | S\$'000 | % of total |
| Austria | 137 | 0.9 | 169 | 1.3 |
| Australia | 3,038 | 20.5 | 2,774 | 22.2 |
| Bangladesh | 473 | 3.2 | 959 | 7.7 |
| France | 126 | 0.8 | – | – |
| Hong Kong | 24 | 0.2 | 157 | 1.3 |
| Indonesia | 395 | 2.7 | 38 | 0.3 |
| Malaysia | 1,575 | 10.6 | 1,580 | 12.6 |
| People's Republic of China | 609 | 4.1 | 65 | 0.5 |
| Philippines | 130 | 0.9 | – | – |
| Singapore | 4,289 | 28.9 | 5,922 | 47.3 |
| Taiwan | 3,522 | 23.8 | – | – |
| Thailand | 250 | 1.7 | 680 | 5.4 |
| United States of America | 106 | 0.7 | 127 | 1.0 |
| Others | 148 | 1.0 | 44 | 0.4 |
| | <u>14,822</u> | <u>100</u> | <u>12,515</u> | <u>100</u> |

At the balance sheet date, approximately 48.7% (2016: 39.9%) of the Group's trade receivables were due from 5 (2016: 5) major customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

21. Financial instruments (cont'd)

(d) Credit risk (cont'd)

Financial assets that are not impaired

Trade and other receivables that are not impaired are with creditworthy debtors with good payment records. Cash and short term deposits are placed with reputable banks.

As at 30 June 2017, the ageing analysis of trade receivables that are past due but not impaired is as follows:

| | Consolidated | |
|--------------------|-----------------|-----------------|
| | 2017 S\$'000 | 2016 S\$'000 |
| Less than 30 days | 2,393 | 1,894 |
| 30 to 60 days | 868 | 955 |
| 61 to 90 days | 254 | 228 |
| 91 to 120 days | 131 | 145 |
| More than 120 days | 1,206 | 3,445 |
| | <u>4,852</u> | <u>6,667</u> |

As at 30 June 2017, trade receivables amounting to S\$645,000 (2016: S\$758,000) were arranged to be settled via letters of credit issued by reputable banks in countries where the customers were based.

Financial assets that are impaired

Please refer to note 14 for details.

(e) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

21. Financial instruments (cont'd)

(e) Liquidity risk (cont'd)

The following table summarises the maturity profile of the Group's financial assets and liabilities at the balance sheet date based on contractual undiscounted payments. The expected timing of actual cash flows from these financial instruments may differ.

| | 6 months or less S\$'000 | 7 to 12 months S\$'000 | After 1 year but not more than 5 years S\$'000 | 5 to 10 years S\$'000 | Total S\$'000 |
|---|--------------------------------|------------------------------|--|-----------------------------|------------------|
| Consolidated | | | | | |
| 2017 | | | | | |
| Financial assets: | | | | | |
| Trade receivables | 14,677 | – | – | – | 14,677 |
| Other receivables | 1,282 | 239 | – | – | 1,521 |
| Loan receivable | – | – | 690 | – | 690 |
| Cash and bank balances | 18,591 | – | – | – | 18,591 |
| Total undiscounted financial assets | 34,550 | 239 | 690 | – | 35,479 |
| Financial liabilities: | | | | | |
| Trade payables | 7,291 | – | – | – | 7,291 |
| Other payables | 6,523 | 106 | – | – | 6,629 |
| Unrealised loss on derivatives | 64 | – | – | – | 64 |
| Loans and borrowings | 8,967 | 1,090 | 688 | – | 10,745 |
| Total undiscounted financial liabilities | 22,845 | 1,196 | 688 | – | 24,729 |
| Total net undiscounted financial assets/(liabilities) | 11,705 | (957) | 2 | – | 10,750 |
| 2016 | | | | | |
| Financial assets: | | | | | |
| Trade receivables | 12,109 | – | – | – | 12,109 |
| Other receivables | 1,278 | 143 | – | – | 1,421 |
| Investment securities | – | – | 1 | – | 1 |
| Cash and bank balances | 20,557 | – | – | – | 20,557 |
| Total undiscounted financial assets | 33,944 | 143 | 1 | – | 34,088 |
| Financial liabilities: | | | | | |
| Trade payables | 9,299 | – | – | – | 9,299 |
| Other payables | 6,040 | 43 | – | – | 6,083 |
| Loans and borrowings | 5,746 | 1,796 | 2,639 | – | 10,181 |
| Total undiscounted financial liabilities | 21,085 | 1,839 | 2,639 | – | 25,563 |
| Total net undiscounted financial assets/(liabilities) | 12,859 | (1,696) | (2,638) | – | 8,525 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

21. Financial instruments (cont'd)

(f) Fair values

(i) Fair value of financial instruments that are carried at fair value

| | Quoted prices in active markets for identical instruments (Level 1) S\$'000 | Significant other observable inputs (Level 2) S\$'000 | Significant unobservable inputs (Level 3) S\$'000 | Total S\$'000 |
|---|---|--|---|------------------|
| Consolidated | | | | |
| 2017 | | | | |
| Financial liabilities: | | | | |
| Derivatives – foreign currency forward contracts | – | 64 | – | 64 |
| At 30 June 2017 | – | 64 | – | 64 |
| 2016 | | | | |
| Financial assets: | | | | |
| Available-for-sale | 1 | – | – | 1 |
| At 30 June 2016 | 1 | – | – | 1 |

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets.

The fair value of foreign currency forward contracts are derived from mark-to-market valuations using theoretical valuation model which incorporates various inputs such as foreign exchange spot and forward rates, volatility, tenure, time value and forward rates curves of the underlying commodity.

There were no transfers between level 1 and level 2 fair value measurements during the financial years 2017 and 2016.

(ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Management has determined that the carrying amounts of cash and short-term deposits, current trade and other receivables, current trade and other payables, current interest-bearing liabilities reasonably approximate their fair values because they are mostly short-term in nature and repriced frequently.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

21. Financial instruments (cont'd)

(f) Fair values (cont'd)

- (iii) *Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value*

The fair values of non-current finance lease liabilities and bank loans bearing interest at fixed rates, which are not carried at fair value in the balance sheet, are presented in the following table. The fair value is estimated using discounted cash flow analysis using discount rate that reflects the issuer's borrowing rate at the end of the reporting period. The Group's own non-performance risk as at 30 June 2017 was assessed to be insignificant.

| | Consolidated | | | |
|----------------------------------|-----------------|---------|------------|---------|
| | Carrying Amount | | Fair Value | |
| | 2017 | 2016 | 2017 | 2016 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Financial liabilities: | | | | |
| Obligations under finance leases | 591 | 434 | 567 | 419 |
| Bank loans | 61 | 61 | 56 | 54 |

22. Capital Management

The Group's primary objective when managing capital structure is to maintain an efficient mix of debt and equity in order to achieve a low cost of capital while taking into account the desirability of retaining financial flexibility to pursue business opportunities and adequate access to liquidity to mitigate the effect of unforeseen events on cash flows.

The Group regularly reviews the Company's capital structure and make adjustments to reflect economic conditions, business strategies and future commitments. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets or increase borrowings. No changes were made in the objectives, policies and processes during the years ended 30 June 2017 and 30 June 2016.

Management monitors capital through the gearing ratio (net debt / total capital). The Group defines net debts as interest-bearing liabilities less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Parent and reserves. The Group's policy is to keep its gearing ratio at less than 50%.

The gearing ratios as at 30 June 2017 and 30 June 2016 were 0% as cash and cash equivalents exceeded interest-bearing liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

23. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

In addition to the related party information disclosed elsewhere in the financial statements, the following are transactions with related parties at mutually agreed terms and amounts:

(a) Sale and purchase of goods and services

| | Consolidated | |
|--|---------------------|-------------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Minority shareholder of a subsidiary company | | |
| - Sales | 276 | 222 |
| - Purchases | 33 | 32 |
| Associates | | |
| - Sales | 933 | 509 |
| - Purchases | 62 | - |
| - Interest income | 21 | 31 |
| - Rental & utilities income | 115 | 78 |
| - Services rendered | 365 | 32 |
| Other related parties | | |
| - Interest income | - | 1 |
| - Services rendered | 6 | - |

(b) Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made at arm's length basis at normal market prices and on normal commercial terms.

Outstanding non-trade balances as at year-end with related parties are unsecured, interest-free and have no fixed terms of repayment. For information regarding outstanding balances on related party receivables and payables at year-end, please refer to notes 14 and 16.

(c) Compensation of key management personnel

| | Consolidated | |
|------------------------------|---------------------|-------------|
| | 2017 | 2016 |
| | S\$ | S\$ |
| Short-term employee benefits | 1,442,745 | 1,455,999 |
| Post-employment benefits | 44,010 | 46,909 |
| Share-based payments | 17,892 | 27,590 |
| Total compensation | 1,504,647 | 1,530,498 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

24. Share-based payment plans

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year for equity-settled share-based payment transactions amounted to S\$43,000 (2016: S\$83,000).

There have been no cancellations or modifications to the plan during the years 2017 and 2016.

(b) Description of the share-based payment plan

Zicom Employee Share and Option Plan ("ZESOP")

Share options are granted to employees as an incentive to retain experience and attract talent. Under the ZESOP, the exercise price of the options approximates the market price of the shares on the grant dates. Employees must remain in service for a period of 1 to 3 years.

Should an employee leave the company or resign from his office, any vested options not exercised prior to that date will be lost except for exceptional circumstances such as death, physical or mental incapacity.

The contractual life of each option granted is 3 to 5 years. There are no cash-settlement alternatives.

(c) Movements during the year

| | 2017 | 2016 |
|----------------------------------|----------------------------|-------------|
| | No. of options (Thousands) | |
| Outstanding at beginning of year | 2,750 | 7,440 |
| Granted during the year | – | 600 |
| Forfeited during the year | (70) | (20) |
| Expired during the year | – | (3,651) |
| Exercised during the year | – | (1,619) |
| Outstanding at end of year | 2,680 | 2,750 |
| Exercisable at end of year | 2,680 | – |

The outstanding balance of share options as at 30 June 2017 and 30 June 2016 is represented by:

| No. of options (Thousands) | | Exercise price | Exercisable | Expiry Date |
|-----------------------------------|-------------|---------------------------|--------------------|--------------------|
| 2017 | 2016 | (Australian Cents) | on or after | |
| 2,080 | 2,150 | 20.5 | 1/11/2016 | 31/10/2019 |
| 600 | 600 | 18.0 | 1/12/2016 | 30/11/2020 |
| 2,680 | 2,750 | | | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

24. Share-based payment plans (cont'd)

- (d) The weighted average fair value of options granted in the previous financial year was A\$0.04.
- (e) The weighted average share price during the period of exercise in the previous financial year was A\$0.18.
- (f) Option pricing model

The fair value of the equity-settled share options granted under the ZESOP is estimated as at the date of grant using a Trinomial model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| Inputs | 2016 |
|----------------------------------|--------|
| Exercise price (A\$): | 0.180 |
| Stock price at grant date (A\$): | 0.170 |
| Maximum option life in years: | 5 |
| Volatility: | 34.94% |
| Risk free interest rate: | 2.00% |

The effects of early exercise have been incorporated into the calculations by defining the conditions under which employees are expected to exercise their options after vesting in terms of the stock price reaching a specified multiple of the exercise price, which is not necessarily indicative of exercise patterns that may occur in the future.

25. Commitments

- (a) Commitments

As at year-end, the Group has the following commitments:

- (i) Issued letters of guarantee amounting to S\$11,606,000 (2016: S\$13,990,000).
- (ii) Entered into foreign exchange sell contracts amounting to S\$1,179,000 (2016: S\$120,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

25. Commitments (cont'd)

(b) Operating lease commitments

The Group has entered into commercial leases for the use of leasehold properties and office equipment as lessee. These leases have an average of 2 to 30 years. There are no restrictions placed upon the Group by entering into these leases.

Future minimum lease payments for the leases are as follows:

| | Consolidated | |
|--------------------|---------------------|---------------|
| | 2017 | 2016 |
| | S\$'000 | S\$'000 |
| Within 1 year | 2,147 | 2,148 |
| Within 2 - 5 years | 5,078 | 4,203 |
| More than 5 years | 4,577 | 5,575 |
| | <u>11,802</u> | <u>11,926</u> |

The amount of operating lease payments recognised as an expense in the year ended 30 June 2017 is S\$2,382,000 (2016: S\$2,297,000).

(c) Finance lease commitments

The Group has finance leases for various plant and equipment. Future minimum lease payments under finance leases together with present value of the net minimum lease payments are as follows:

| | Minimum payments | Present value of payments | Minimum payments | Present value of payments |
|---|-------------------------|----------------------------------|-------------------------|----------------------------------|
| | 2017 | 2017 | 2016 | 2016 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Consolidated | | | | |
| Due within one year | 455 | 436 | 792 | 761 |
| After one year but not more than five years | 625 | 591 | 455 | 434 |
| Total minimum lease payments | 1,080 | 1,027 | 1,247 | 1,195 |
| Less: amounts representing finance charges | (53) | - | (52) | - |
| | <u>1,027</u> | <u>1,027</u> | <u>1,195</u> | <u>1,195</u> |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

25. Commitments (cont'd)

(d) Capital commitments

As at 30 June 2017, the Group had the following capital commitments:

- (i) Payment for the second tranche of the subscription of rights shares in Curiox Biosystems Pte Ltd amounting to S\$276,000 due on 1 September 2017 (note 12b); and
- (ii) Additional injection of capital into Pellucid Networks Pte Ltd amounting to S\$400,000 (note 12b).

The Group had no capital commitment as at 30 June 2016.

26. Auditors' remuneration

During the year, the following fees were paid/payable for services provided by auditors:

| | Consolidated | |
|---|----------------|----------------|
| | 2017 | 2016 |
| | S\$ | S\$ |
| <i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i> | | |
| - Audit and review of financial statements | 136,474 | 127,336 |
| - Taxation services | 12,388 | - |
| <i>Amounts received or due and receivable by Ernst & Young (Singapore) for:</i> | | |
| - Audit and review of financial statements | 243,000 | 230,000 |
| <i>Amounts received or due and receivable by other audit firms for:</i> | | |
| - Audit and review of financial statements | 24,307 | 23,502 |
| - Taxation services | 4,450 | 7,552 |
| - Other non-audit services | 2,000 | 2,229 |
| | <u>422,619</u> | <u>390,619</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

27. Parent Entity disclosures

(a) The individual financial statements of the Parent Entity shows the following aggregate amounts:

| | 2017 S\$'000 | 2016 S\$'000 |
|---|-----------------|-----------------|
| Balance sheet | | |
| Non-current assets | 50,971 | 50,597 |
| Current assets | 2,066 | 2,024 |
| Total assets | <u>53,037</u> | <u>52,621</u> |
| Current liabilities | 55 | 49 |
| Total liabilities | <u>55</u> | <u>49</u> |
| Net assets | <u>52,982</u> | <u>52,572</u> |
| Equity | | |
| Share capital (i) | 71,850 | 71,850 |
| Share capital - exercise of share options | 472 | 472 |
| Capital reserve | 688 | 688 |
| Foreign currency translation reserve | (338) | (437) |
| Share-based payments reserve | 165 | 129 |
| Accumulated losses | <u>(19,855)</u> | <u>(20,130)</u> |
| | <u>52,982</u> | <u>52,572</u> |
| Results | | |
| Profit for the year | 1,081 | 1,522 |
| Other comprehensive income | - | - |
| Total comprehensive income | <u>1,081</u> | <u>1,522</u> |

(i) The share capital of the Parent Entity differs from that of the consolidated entity due to the reverse takeover which took place in 2006. Accordingly, the Parent Entity which is the legal parent is accounted for as the acquiree for accounting purposes.

(b) Guarantees

(i) The Parent Entity has issued letters of guarantee amounting to S\$242,000 (2016: S\$1,115,000) to secure trade facilities and bank loans for controlled entities.

(ii) The Parent Entity has entered into a Deed of Cross Guarantee and the subsidiaries subject to the deed is disclosed in note 11.

(c) Contingent liabilities

The parent entity has no contingent liabilities as at 30 June 2017 and 30 June 2016.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Singapore dollars)

28. Subsequent events

(a) Investment in Pellucid Networks Pte Ltd

On 8 August 2017, Zicom MedTacc Private Limited injected S\$400,000 into Pellucid Networks Pte Ltd ("Pellucid") and increased its equity interest in Pellucid to 11.51%.

(b) Investment in Curiox Biosystems Pte Ltd

On 8 September 2017, 138,000 preference shares were allotted to Zicom Holdings Private Limited for a cash consideration of S\$276,000 pursuant to the remaining tranche of the non-renounceable rights issue. As a result of this allotment, the Group's interest in Curiox decreased to 72.75%.

(c) Investment in Zicom Energy Solutions Private Limited

On 21 September 2017, Zicom Private Limited, a wholly-owned subsidiary, entered into an investment agreement to acquire 51% equity interest in Zicom Energy Solutions Private Limited, a dual fuel technology company, for a cash consideration of S\$510,000, payable in 2 equal tranches. Completion for the first tranche is targeted to be in October 2017 with the second tranche due within 90 days from the first completion date.

(d) Investment in Link Vue Systems Pte Ltd

On 26 September 2017, Zicom Equipment Private Limited, a wholly-owned subsidiary, has acquired 71.87% equity interest in Link Vue Systems Pte Ltd, an automation company specialised in industrial controls and system engineering, for a cash consideration of S\$189,000.

(e) Litigation

On 30 August 2017, Luminex Corporation which is based in the United States ("Luminex") has filed an Original Complaint against Curiox Biosystems Inc ("Curiox"), a subsidiary of Curiox Biosystems Pte Ltd which in turn is an associate of Zicom Holdings Private Limited, in the United States District Court, Western District of Texas (Austin Division).

Luminex is seeking, amongst others, orders enjoining Curiox from "falsely or misleadingly advertising or promoting Curiox's products" and making "false and misleading statements about the performance of Luminex's systems" and to seek damages.

Curiox has retained attorneys in the Boston, USA law firm of Morgan, Lewis & Bockius LLP as legal counsel. Curiox denies all of Luminex's claims and will vigorously defend itself against Luminex's allegations. Curiox will also consider potential counterclaims it may have against Luminex.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Zicom Group Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the consolidated entity for the financial year ended 30 June 2017 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.2.
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2017.
- (e) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 11 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



GL Sim
Chairman/Managing Director
29 September 2017

INDEPENDENT AUDITOR'S REPORT

to the members of Zicom Group Limited



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Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Zicom Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the Directors' Declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

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

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

INDEPENDENT AUDITOR'S REPORT

to the members of Zicom Group Limited



PwC

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1. Assessment of the carrying value of the intangible assets, property, plant and equipment and investments in associates

Refer to Notes 9, 10 and 12 of the financial report

Why significant

We focused on this area because the Directors' assessment of the recoverability of the Group's intangible assets of S\$14.7 million, inclusive of goodwill of S\$7.0 million, property, plant and equipment of S\$23.0 million and investments in associates of S\$9.5 million, involves significant judgments and assumptions about the progress and future results of the Cash Generating Units ("CGUs") of the Group. An impairment assessment of goodwill is carried out annually, while definite life intangible, property, plant and equipment and investments in associates are assessed for indicators of impairment. For the current financial year, in respect of goodwill and some associates, indicators were identified and impairment testing was performed by the Group as disclosed in note 10.

Due to the range of judgments and assumptions used in the impairment models (i.e. cash flow forecasts, growth rates, discount rates, timing of cash flows, market share assumptions and margins) and assessments, as well as the significant carrying amount of the property, plant and equipment, intangible assets and investments in associates (41% of total assets), this is considered to be a Key Audit Matter.

As disclosed in the note 10 to the financial report, the impairment models are sensitive to growth rate, margin, timing of cash flows and discount rate which, if not achieved, could reasonably be expected to give rise to impairment charges in the future.

How our audit addressed the key audit matter

In performing our procedures for goodwill, we assessed the CGU to which the goodwill was allocated, the assumptions and methodologies used by the Group in the value-in-use models. The procedures performed are outlined below.

We evaluated the Group's assessment for indicators of impairment. In doing so, we considered the CGUs business performance and associated results for the year, market conditions and expected future results. Where indicators of impairment were identified, we assessed the Group's value-in-use models for the CGU, as outlined below. We also assessed the useful life of each definite life asset in the context of the expected future period of economic consumption.

We understood and assessed the Directors' assumptions over key business drivers of the cash flow forecasts supporting their recoverability assessments, being forecasted confirmed orders, market performance and expected growth, the level of new business wins, timing of cash flows and the planned margin growth capabilities. Where applicable, we considered the historical reliability of the Group's cash flow forecasting process.

We evaluated the key assumptions including the discount rates and terminal growth rates used in the impairment assessments. We involved our valuation specialists to assess the discount rates and long term growth rates applied in the models. For some businesses in the precision engineering and technology segment we also assessed multiples of comparable companies.

We performed sensitivity analysis around the key assumptions above to ascertain the extent of change in those assumptions that either individually or collectively would be significantly different to the Directors' conclusion.

We assessed the adequacy of the related disclosures in the notes to the financial report.

INDEPENDENT AUDITOR'S REPORT

to the members of Zicom Group Limited



2. Accounting for the investment in Curiox

Refer to Note 12 of the financial report

Why significant

The Group, through its subsidiary Zicom Holding Pte Limited, holds 73.02% in Curiox Biosystems Pte Ltd ("Curiox").

The Group continued to consider Curiox as an associate entity and applied the equity method of accounting for its interest in Curiox in accordance with Australian Accounting Standards. This requires significant judgment and reassessment for any changes in the shareholdings and the Articles of Association of Curiox ("the Articles").

How our audit addressed the key audit matter

We evaluated the Group's assessment of the treatment for the investment in Curiox. This included understanding the Articles of Curiox to assess whether the Group's rights under the Articles do not provide control over Curiox.

We assessed the adequacy of the Group's disclosure of the nature and risks associated with Curiox and the summarised financial information included in the financial report.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

to the members of Zicom Group Limited



Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

INDEPENDENT AUDITOR'S REPORT

to the members of Zicom Group Limited



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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

INDEPENDENT AUDITOR'S REPORT

to the members of Zicom Group Limited



Report on Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 21 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Zicom Group Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A stylized, handwritten signature of Ernst & Young in a cursive script.

Ernst & Young

A handwritten signature of Tom du Preez in a cursive script.

Tom du Preez
Partner
Brisbane
29 September 2017

INFORMATION ON SHAREHOLDINGS

As at 28 September 2017

Distribution of Equity Securities

a) Analysis of numbers of equity security holders by size of holding:

| | Ordinary Shares | Number of Holders |
|------------------|--------------------|-------------------|
| 1 – 1,000 | 6,600 | 55 |
| 1,001 – 5,000 | 692,256 | 189 |
| 5,001 – 10,000 | 2,150,919 | 240 |
| 10,001 – 100,000 | 14,026,800 | 402 |
| 100,001 and over | 200,264,205 | 116 |
| | <u>217,140,780</u> | <u>1,002</u> |

b) There were 146 holders of less than a marketable parcel of ordinary shares.

Twenty Largest Equity Security Holders

The names of the twenty largest equity security holders are listed below:

| Name | Number of Ordinary Shares Held | Percentage of Issued Shares |
|---|--------------------------------|-----------------------------|
| SNS HOLDINGS PTE LTD | 81,000,360 | 37.30% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 14,669,118 | 6.76% |
| JUAT KOON SIM | 11,778,172 | 5.42% |
| GIOK LAK SIM | 13,752,777 | 6.34% |
| VENTRADE (ASIA) PTE LTD | 8,478,344 | 3.90% |
| JUAT LIM SIM | 6,487,767 | 2.99% |
| CITICORP NOMINEES PTY LIMITED | 5,796,373 | 2.67% |
| BNP PARIBAS NOMS (NZ) LTD | 4,822,704 | 2.22% |
| MR MAKRAM HANNA & MRS RITA HANNA | 4,086,500 | 1.88% |
| EE GEK GOH | 2,791,017 | 1.29% |
| SIONG TECK NG | 2,410,665 | 1.11% |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 2,295,949 | 1.06% |
| HUNG SEAH TANG | 2,100,839 | 0.97% |
| JUAT KHIANG SIM | 2,069,525 | 0.95% |
| FIRST CHARNOCK SUPERANNUATION PTY LTD | 1,890,000 | 0.87% |
| KOK HWEE SIM | 1,488,180 | 0.69% |
| DEBUSCEY PTY LTD | 1,355,615 | 0.62% |
| KOK YEW SIM | 1,350,253 | 0.62% |
| MR CHUAN GAO | 1,338,820 | 0.62% |
| KAILVA PTY LTD | 1,200,000 | 0.55% |

Substantial Shareholders

Substantial shareholders in the company (holding not less than 5% of the issued capital), as disclosed in substantial shareholder notices given to the company, are set out below:

| Name | Number of Ordinary Shares Held | Percentage of Issued Shares |
|---|--------------------------------|-----------------------------|
| GIOK LAK SIM & HIS ASSOCIATES | 94,753,137 | 43.64% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 14,669,118 | 6.76% |
| JUAT KOON SIM & HIS ASSOCIATES | 14,569,189 | 6.71% |

Voting Rights

On a show of hands, every member present in person or by proxy shall have one vote and, upon a poll, each share shall have one vote.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Giok Lak Sim (Chairman and Managing Director)
Kok Hwee Sim (Executive Director)
Kok Yew Sim (Executive Director)
Yian Poh Lim
Frank Leong Yee Yew
Ian Robert Millard
Shaw Pao Sze

JOINT COMPANY SECRETARIES

Jenny Lim Bee Chun
Igor Sushko

REGISTERED OFFICE

38 Goodman Place
Murarrie QLD 4172
Australia
Telephone : +61 7 3908 6088
Facsimile : +61 7 3390 6898
Website : www.zicomgroup.com

SHARE REGISTRY

Link Market Services Limited
Level 15
324 Queen Street
Brisbane, QLD 4000
Australia
Facsimile : +61 2 9287 0309

AUDITORS

Ernst & Young
111 Eagle Street
Brisbane, QLD 4000
Australia

SOLICITORS

Thomson Geer
Level 16, Waterfront Place
1 Eagle Street
Brisbane, QLD 4000
Australia

BANKERS

Australia
Westpac Banking Corporation

Singapore

United Overseas Bank Limited
Malayan Banking Berhad
Oversea-Chinese Banking Corporation Limited
DBS Bank Ltd
Westpac Banking Corporation
Australia and New Zealand Banking Group Limited

Thailand

United Overseas Bank (Thai) Public Company Limited
The Siam Commercial Bank Public Company Limited

China

Industrial and Commercial Bank of China Limited
China Construction Bank Corporation

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Zicom Group Limited will be held at the

The Colmslie Hotel
Corner of Wynnum and Junction Roads
Morningside, Queensland 4170
Australia

Time: 10.00am (Brisbane time)
Date: Wednesday, 15 November 2017

A formal Notice of Meeting is enclosed.

For personal use only

For personal use only



ZICOM

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