# IFS CAPITAL LIMITED

annual REPORT 2012

Celebrating 25th Anniversary Since 1987

IFS Capital Limited ("IFS") was incorporated in Singapore in 1987 and listed on the Mainboard of the Singapore Exchange in July 1993.

IFS is a regional financial group involved in Commercial Finance, Alternative Finance, Structured Finance and Principal Investments. The Group also provides credit insurance, bonds and guarantees via its insurance subsidiary, ECICS Limited.

## Mission Statement

To be the premier regional financial services provider to our clients through commitment to service excellence, creating sustainable value for our stakeholders.

# Contents

# Chairman's Statement

We performed well in 2012.

A first and final dividend of 2 cents per share has been proposed to reward shareholders. This has been increased from the previous year payout of 1.75 cents per share.

Our 2012 performance is notable on a few fronts.

## REVIEW OF 2012 PERFORMANCE

All revenue figures showed a healthy increase in 2012.

Operating income increased by 14% to $35.8 million from higher business volumes achieved by all operating entities.

Pre-tax profit rose substantially to $12.0 million from $8.8 million previously. However the increase in after-tax profit was lower due to higher chargeable income for the year as the Group benefited from a $1.2 million tax refund the previous year. Net profit after tax and non-controlling interests went up by 10% to $7.6 million.

Total comprehensive income for the year rose substantially from $4.5 million to $8.3 million due to a net positive change in the fair value of available for sale financial assets to $3.0 million. Excluding the foreign currency translation effects from the Company's holdings in its regional operations, total comprehensive income would have increased to $11.3 million.

Our growth last year was led by increases in all major revenue drivers.

Net interest income went up by 16% contributed by all operating entities.

Investment income doubled to $3.4 million.

Business volumes went up substantially. Factoring volume was up 16% and loans by 6%.

Our overseas subsidiaries reported a significant increase in after-tax profit and after non-controlling interests by 52% to $4.0 million. Our Thailand subsidiary achieved record factoring volumes and profit for 2012.

**"Productivity is not just a direct play of input factor costs such as labour and property rental. Clusters, scope and scale, and technological upgrades can minimise costs and increase revenue. Optimization comes about through synergy and complementation. Organizational design such as shifting from financial to operational leasing can provide better value added services. For Singapore's economic restructuring it pays us to move from our comfort zones to grow organically or by acquisitions in the region. Networks need orchestration."**

ECICS reported an after-tax profit of $2.7 million down marginally from $2.9 million the previous year. Net earned premium revenue increased by 30% to $3.9 million mainly from bond and guarantee business and a write back in provision for unexpired risks of $701,000 to income as compared to a charge of $127,000 in 2011. The write back resulted from reduction in expected loss factor on bonds and guarantee insurance contracts computed on actuarial basis. The lower after-tax profit was mainly due to higher operating and tax expenses and a lower net claims reversal of $205,000 as compared to $1.3 million in 2011.

Our existing pipeline of transactions bodes well for the future.

## PERFORMANCE BENCHMARKING

The Group's earnings per share was 5.1 cents versus 4.6 cents the previous year. Net asset value per share for the Group stood at 92.6 cents as compared to 89.5 cents in 2011. Net gearing went up due to higher business volume but remained conservative at 1.6 times a slight increase from 1.5 times the previous year.

Our cost-to-income ratio on a consolidated group basis went down to 55.9% as compared with 59.1% in 2011.

While our net interest margin was lower by 0.5% due largely to business volume built up and competition, it remains high at 5.95%.

Overall I am pleased to report that we remain well capitalized and we ended the year with high liquidity levels. This puts us in a good position to further expand our business.

## NEW BUSINESS AND GROWTH

Given the Group's confidence in the regional economies, it will continue to expand its commitment in Malaysia, Indonesia and Thailand.

Indonesia and Malaysia continue to expand at an encouraging pace and the Group is looking to increase its presence in these countries. A new representative office was opened in Balikpapan, Kalimantan in Indonesia late last year to serve existing clients as well as to expand its presence. Malaysia's performance and outlook continue to be encouraging and the Group is looking to increase its staffing levels there.

Thailand's operations are currently focused on factoring and leasing and the company will look to increase its presence in other services in the country.

ECICS has obtained an A- (Excellent) rating from A.M. Best last year and its outlook remains bright with the bond and guarantee business expected to remain favourable on the strong pipeline of public housing and infrastructure projects in Singapore. We should be able to take advantage of our strong credit rating to pursue more business.

The credit insurance is expected to achieve better results under a more focused marketing strategy.

The Board continues to look at new business opportunities and markets given our capital base and liquidity levels and is continuously looking to expand our presence.

## CHALLENGES

Productivity is not just a direct play of input factor costs such as labour and property rental. Clusters, scope and scale, and technological upgrades can minimise costs and increase revenue. Optimization comes about through synergy and complementation. Organizational design such as shifting from financial to operational leasing can provide better value added services. For Singapore's economic restructuring it pays us to move from our comfort zones to grow organically or by acquisitions in the region. Networks need orchestration.

A big "thank you" to all staff, clients and associates who made our drive towards regionalisation an increasing reality.

**Lim Hua Min**
Chairman
8 March 2013

# Group Financial Highlights

| S$'000 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | |
| Gross operating income | **42,686** | 35,971 | 35,506 | 34,612 | 34,270 |
| Profit | | | | | |
| - before tax | **11,998** | 8,831 | 6,536 | 7,948 | 7,857 |
| - after tax | **8,827** | 7,703 | 7,872 | 6,571 | 8,015 |
| - after tax attributable to owners of the Company | **7,622** | 6,956 | 7,104 | 6,531 | 8,015 |
| **BALANCE SHEET** | | | | | |
| Number of shares ('000) | **150,388** | 150,388 | 150,388 | 136,716 | 124,288 |
| Issued share capital | **88,032** | 88,032 | 88,032 | 88,032 | 88,032 |
| Shareholders' funds | **139,266** | 134,553 | 132,676 | 127,090 | 120,972 |
| Non-controlling interests | **9,564** | 9,114 | 9,194 | 432 | - |
| Total assets | **432,601** | 393,520 | 325,737 | 357,070 | 393,437 |
| Total liabilities | **283,771** | 249,853 | 183,867 | 229,548 | 272,465 |
| **DIVIDEND INFORMATION** | | | | | |
| Dividends proposed/paid for the year (net of tax) | **3,008** | 2,632 | 2,256 | 2,051 | 2,486 |
| Dividend cover (number of times) * | **0.95** | 1.43 | 3.43 | 1.62 | 3.63 |
| Gross dividends declared per share* | | | | | |
| - Ordinary (cents) | **2.00** | 1.75 | 1.50 | 1.50 | 2.00 |
| Dividend yield (%) | **4.0** | 4.3 | 3.7 | 3.7 | 4.9 |
| **FINANCIAL RATIOS** | | | | | |
| Earnings per share after tax (cents) | **5.07** | 4.63 | 4.72 | 4.34 | 5.86 |
| Net tangible assets per share ($) | **0.92** | 0.88 | 0.86 | 0.83 | 0.88 |
| Return on average shareholders' funds (%) | **5.6** | 5.2 | 5.5 | 5.3 | 6.5 |
| Cost-income ratio (%) | **55.9** | 59.1 | 56.0 | 52.4 | 55.6 |

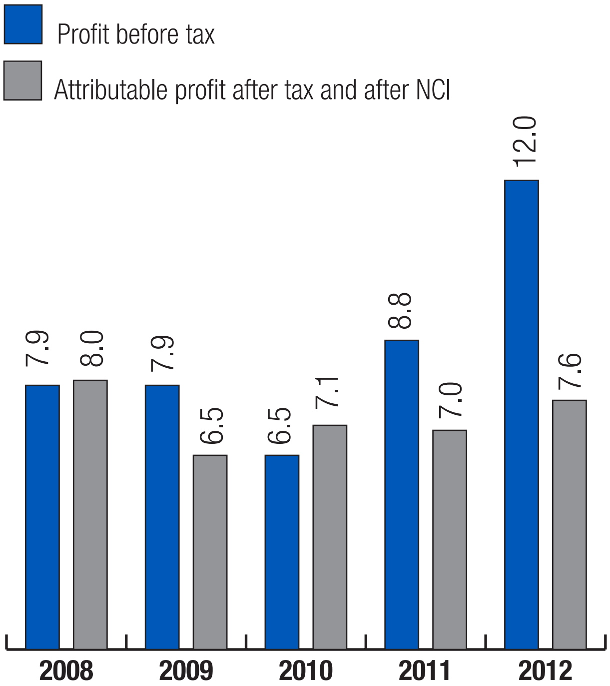
**Notes:** * Gross dividends per share and times covered are stated based on the dividend proposed/paid relating to the respective financial years and expressed over the Company's profit. Gross dividend per share for FY2012 relates to the proposed one-tier tax exempt first and final dividend of 2.0 cents.

Earnings per share and net tangible assets per share for FY2008 and FY2009 have been restated to adjust for the effects of one Bonus Share for every ten existing ordinary shares issued on 6 May 2009 and 5 May 2010 respectively.

# Performance at a Glance

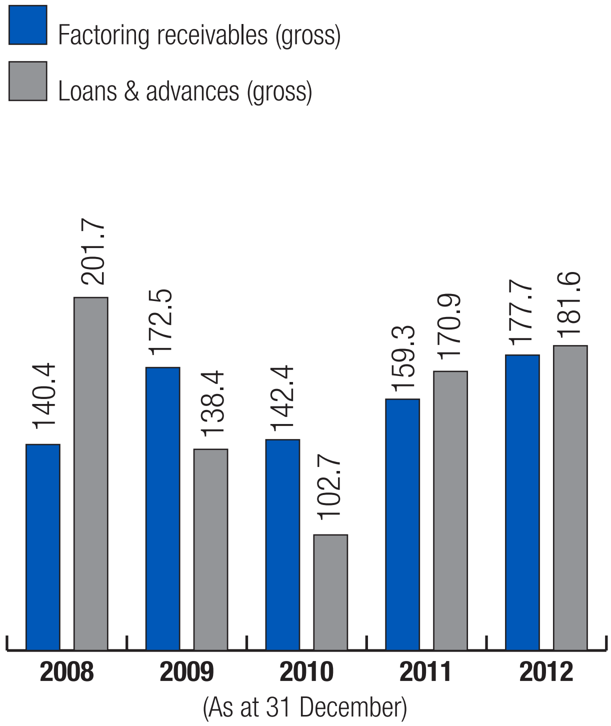
## PROFIT & LOSS

(S$ million)



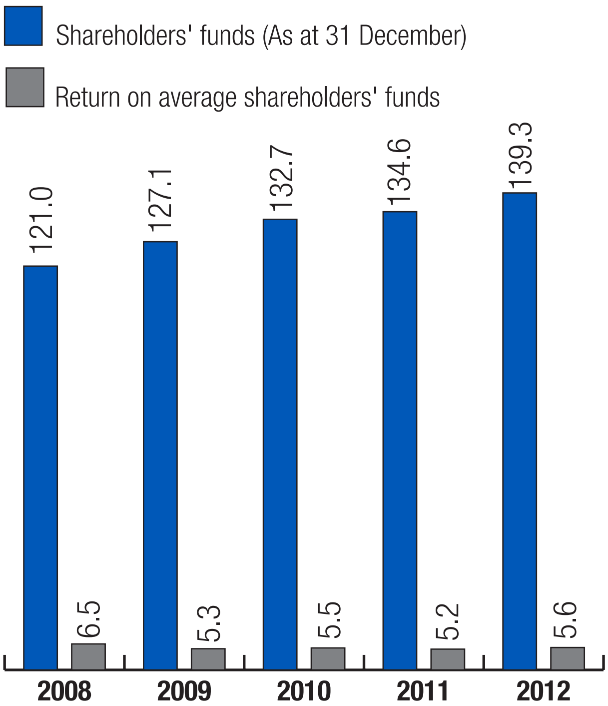

## FACTORING RECEIVABLES AND LOANS & ADVANCES

(S$ million)

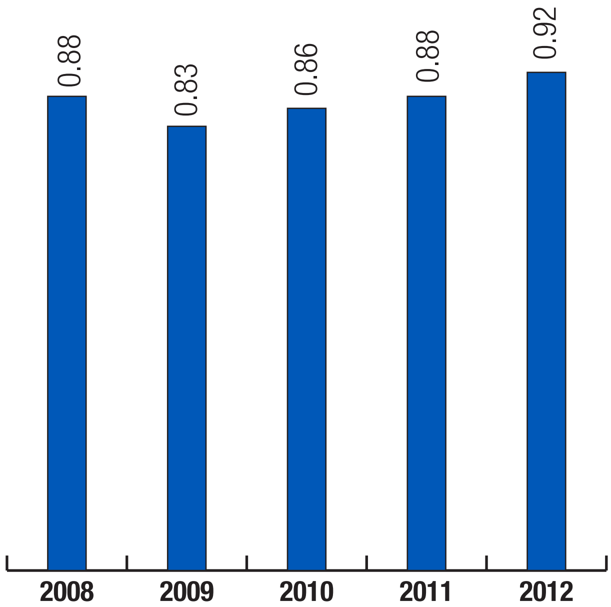



## SHAREHOLDERS' FUNDS (S$ million)

## RETURN ON AVERAGE SHAREHOLDERS' FUNDS (%)




## NET TANGIBLE ASSETS PER SHARE (S$)



# Board of Directors

**LIM HUA MIN**
CHAIRMAN & NON-EXECUTIVE DIRECTOR

Mr Lim Hua Min was appointed Chairman of IFS Capital Limited on 20 May 2003. Mr Lim is also Chairman of ECICS Limited, wholly-owned subsidiary of IFS Capital Limited.

Mr Lim is the Executive Chairman of the PhillipCapital Group of Companies. He began his career holding senior positions in the Stock Exchange of Singapore ("SES") and the Securities Research Institute. He has served on a number of committees and sub-committees of SES. In 1997, he was appointed Chairman of SES Review Committee, which was responsible for devising a conceptual framework to make Singapore's capital markets more globalised, competitive and robust. For this service, he was awarded the Public Service Medal in 1999 by the Singapore Government. Mr Lim had also served as a Board Member in the Inland Revenue Authority of Singapore from September 2004 to August 2010.

Mr Lim holds a Bachelor of Science Degree (Honours) in Chemical Engineering from the University of Surrey and obtained a Master's Degree in Operations Research and Management Studies from Imperial College, London University.

**GABRIEL TEO CHEN THYE**
LEAD INDEPENDENT DIRECTOR
NON-EXECUTIVE DIRECTOR

Mr Gabriel Teo was appointed as a Director of IFS Capital Limited on 2 November 1999. On 23 January 2013, he was also appointed as a Lead Independent Director.

Mr Teo runs his own consultancy firm, Gabriel Teo & Associates. Prior to starting his own practice, he spent more than 20 years in the banking industry in the region, holding senior appointments with global institutions. He was Head of Corporate Banking at Citibank, Chief Executive Officer of Chase Manhattan Bank and Regional Managing Director of Bankers Trust. Currently, he also serves on the boards of several other corporates as well as non-profit organisations.

Mr Teo holds a Bachelor of Business Administration degree from the National University of Singapore and Master of Business Administration in Finance from Cranfield School of Management. He had also attended the Executive Program in Management at Columbia Business School.

**MANU BHASKARAN**
INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Manu Bhaskaran was appointed as a Director of IFS Capital Limited on 26 February 2004. Prior to this, Mr Manu Bhaskaran had also previously served on the Board of IFS Capital Limited from 26 June 2002 to 20 May 2003. Mr Manu Bhaskaran was also a director of ECICS Limited from 28 May 2007 to 31 January 2011.

Mr Manu Bhaskaran is presently Partner and Head Economic Research at the Centennial Group, a Washington DC-based strategic advisory group. Mr Manu Bhaskaran also serves on the board of the Centennial Group. In addition, he is Vice-President of the Economics Society of Singapore and Council Member of the Singapore Institute of International Affairs as well as an adjunct senior research fellow at the Institute of Policy Studies. He is also an advisor of CIMB Securities International Pte Ltd. Mr Manu Bhaskaran was formerly Managing Director and Chief Economist of SG Securities Asia Ltd.

Mr Manu Bhaskaran holds a Bachelor of Arts (Honours) from Magdalene College, Cambridge University and a Masters in Public Administration from John F Kennedy School of Government, Harvard University. He is also a CFA charterholder.

## LEE SOON KIE

EXECUTIVE DIRECTOR & GROUP CHIEF EXECUTIVE OFFICER

Mr Lee Soon Kie joined the Board of IFS Capital Limited on 21 March 2003 and was appointed the Group Chief Executive Officer of IFS Capital Limited on 8 April 2004. Mr Lee is responsible for the overall management of the Group. He is also a Director of a number of subsidiaries of the Group. Prior to joining IFS Capital Limited, he was a senior executive of the PhillipCapital Group of Companies where he was in charge of institutional business involving mergers and acquisitions and debt capital markets business. Before PhillipCapital, Mr Lee held various senior appointments with an international investment banking group — Schroders.

Mr Lee holds a Bachelor of Arts Degree from the National University of Singapore and a Master of Science Degree in Computer Science (Distinction) from the University of Wales, Aberystwyth.

## KWAH THIAM HOCK

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Kwah Thiam Hock was first appointed as an Executive Director of IFS Capital Limited on 4 May 1987. On 18 December 2006, Mr Kwah retired as Executive Director but continued to serve as a Non-Executive Director of IFS Capital Limited. On 23 January 2013, Mr Kwah was re-designated as an Independent Director of IFS Capital Limited. Mr Kwah is also currently a non-executive director of ECICS Limited, a wholly-owned subsidiary of IFS Capital Limited. Previously, Mr Kwah also served as Chief Executive Officer/Principal Officer of ECICS Limited from 1 June 2003 to 18 December 2006 and as Advisor and Principal Officer of ECICS Limited from 5 July 2007 to 14 September 2009.

Mr Kwah is currently an Independent Director of Wilmar International Limited, Select Group Limited, Excelpoint Technology Limited and Teho International Inc Ltd.

Mr Kwah holds a Bachelor of Accountancy from University of Singapore. Mr Kwah is also a Fellow Member of the Australian Society of Accountants, the Institute of Certified Public Accountants of Singapore as well as the Association of Chartered Certified Accountants (UK).

## LAW SONG KENG

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Law Song Keng was appointed as a Director of IFS Capital Limited on 31 January 2011. He is also currently a Director of ECICS Limited.

Mr Law presently serves on the boards of Great Eastern Holdings Ltd, ACR Capital Holdings Pte Ltd and Asia Capital Reinsurance Group Pte Ltd. Mr Law was previously Managing Director and Chief Executive Officer of Overseas Assurance Corporation, a life and general insurer. A Public Service Commission Scholar, Mr Law had also served as Deputy Managing Director (Administration & Insurance) and as Insurance Commissioner at the Monetary Authority of Singapore, President of the Life Insurance Association, President of the General Insurance Association, President of the Singapore Actuarial Society and Chairman of the Singapore Insurance Institute. In addition, Mr Law had also served as a Board Member in the Inland Revenue Authority of Singapore, Singapore Deposit Insurance Corporation, Central Provident Fund Board and Manulife (Singapore) Pte Ltd.

Mr Law holds a Master of Science (Actuarial Science) from Northeastern University and a Bachelor of Science (Maths, First Class Honours) from the University of Singapore. He is also a Fellow Member of the Society of Actuaries, USA.

# Management Team

## LEE SOON KIE
**Group Chief Executive Officer**

## LIM MUI LING
**Group Chief Financial Officer**
**Finance, Human Resources & Administration**

Ms Lim was appointed Group Chief Financial Officer in January 2007 and is responsible for finance, human resources and administrative functions. She was appointed a Director of IFS Capital (Thailand) Public Company Limited in August 2009. She has been with the Group since 1988 and was overseeing the Finance/Accounting Department. Prior to joining the Group, Ms Lim was an auditor in an international accounting firm for over 5 years. Ms Lim holds a Bachelor of Accountancy from the National University of Singapore. She is also a Member of the Institute of Certified Public Accountants of Singapore.

## CHIONH YI CHIAN
**Group Chief Risk Officer**
**Risk Management, Legal, Compliance & Secretariat**

Ms Chionh was appointed Group Chief Risk Officer in May 2009 and is responsible for risk management, legal, compliance, and secretariat functions. She was appointed a Director of ECICS Limited in February 2009. She has been with the Group since 1995 and prior to this, practised law in Singapore. Ms Chionh holds a Master's degree in Law as well as a Bachelor of Laws (Honours) from the National University of Singapore. In addition, she holds a Graduate Diploma in Compliance awarded by the International Compliance Association and is also a CFA charterholder.

## TEOH CHUN MOOI
**General Manager**
**Operations**

Ms Teoh was appointed General Manager in August 2005 overseeing the factoring and loan operations, client relationship and information technology. Prior to this, she was heading one of the Business Development teams. She was appointed a Director of IFS Capital (Malaysia) Sdn. Bhd. in July 2009. She has been with the Group since 1989. Ms Teoh holds a Bachelor of Commerce (Honours) from the University of Windsor (Canada).

## CHUA CHYE SENG
**General Manager**
**Business Development**

Mr Chua was appointed General Manager in January 2009 and is responsible for business development comprising commercial finance, alternative finance and structured finance. He was appointed a Director of IFS Capital (Malaysia) Sdn. Bhd. in August 2008. He joined IFS in 2006 and prior to this, he has more than 20 years of transactional experience in the areas of equity and debt fund raisings, valuations, mergers and acquisitions. He holds a Master of Applied Finance from the University of Adelaide and a Bachelor of Financial Administration from the University of New England. He is a Member of the Certified Practising Accountants of Australia.

## LUA TOO SWEE

**Chief Executive Officer and Principal Officer**
**ECICS Limited**

Mr Lua joined ECICS Limited as General Manager, Risk Management in July 2008. He was appointed Chief Executive Officer and Principal Officer in September 2009. He was appointed a member of the Board of Commissioner of PT. IFS Capital Indonesia in April 2009. Mr Lua has more than 20 years of international banking experience in the areas of credit risk evaluation and credit risk management. His extensive credit experience includes 10 years as Head of Credit in Singapore for Germany's WestLB Ag covering the Asia Pacific countries. Mr Lua holds a Master of Accountancy from the Charles Sturt University, Australia, a Bachelor of Arts from the University of Singapore and an Advanced Diploma in General Insurance and Risk Management from Singapore College of Insurance.

## TAN LEY YEN

**Director and Chief Executive Officer**
**IFS Capital (Thailand) Public Company Limited**

Mr Tan was appointed Chief Executive Officer in February 2007 of IFS Capital (Thailand) Public Company Limited. He was seconded to the Thailand's subsidiary as General Manager in May 1991 and was appointed Executive Director in October 2000. He has been with the Group since August 1985 and was seconded to PB International Factors Sdn. Bhd. as its General Manager in September 1990. Prior to joining the Group, he was with a local bank for several years. Mr Tan holds a MBA in International Management from the University of London and a Bachelor of Science (Honours) in Management Sciences from the University of Manchester Institute of Science and Technology.

## KATRINA BINTI AB RAHMAN

**Director and Chief Executive Officer**
**IFS Capital (Malaysia) Sdn. Bhd.**

Ms Katrina was appointed Director and Chief Executive Officer of IFS Capital (Malaysia) Sdn. Bhd. in January 2012. She joined the Malaysia's subsidiary in August 2006 as General Manager and was instrumental in setting up the Group's operations in Kuala Lumpur. Prior to joining the Group, she served as the General Manager of Affin Factors Sdn. Bhd., a subsidiary of Affin Bank Berhad. She has more than 20 years of working experience in the banking and financial industry in the areas of credit and business development. She holds a Bachelor of Business Administration from the Eastern Michigan University, USA.

## DESMOND HENG BOON KUAN

**Resident Commissioner and Country Manager**
**PT. IFS Capital Indonesia**

Effective 1 January 2013, Mr Heng has been seconded to the Indonesia's subsidiary as Resident Commissioner and Country Manager to oversee its overall management and operations. Mr Heng joined IFS in April 2010 overseeing the business development functions for Alternative Finance. He was appointed a member of the Board of Commissioner of PT. IFS Capital Indonesia in October 2010. Mr Heng has more than 15 years of working experience in the banking and financial industry. Mr Heng holds a Bachelor of Arts (Economics) degree from the Indiana University, Bloomington USA.

## AHMAD YANI

**President Director**
**PT. IFS Capital Indonesia**

Mr Yani joined the Indonesia's subsidiary in July 2010 overseeing the business development functions for factoring and leasing. Mr Yani was appointed President Director in November 2010 of PT. IFS Capital Indonesia. He has more than 15 years of working experience in the banking and financial industry. For the last 6 years, he served as the Senior Credit Approver of PT Bank UOB Buana. Mr Yani holds a Master degree (Management) from the Institute for Management and Education, Jakarta.

# Other Key Executives

## IFS

**Serene Lim Gek Luang**
*Assistant General Manager, Business Development (Commercial Finance)*
- Bachelor of Commerce
  Nanyang University

**Goh Teik Liang**
*Assistant General Manager, Business Development (Commercial Finance)*
- Bachelor of Science (Agribusiness)
  Universiti Pertanian Malaysia

**Phyllis Chiu Yin Wah**
*Assistant General Manager, Credit Risk Management*
- Bachelor of Arts
  National University of Singapore
- Certified Risk Management Professional
  Asian Risk Management Institute

**Dennis Yap San Hong**
*Manager, Corporate Development*
- Bachelor of Accountancy
  Nanyang Technological University

**Chan Yee Sun**
*Senior Manager, Operations*
- Bachelor of Business Administration
  University of Iowa, USA

**Jane Ang Lee Keow**
*Manager, Client Relationship*
- Bachelor of Business Computing
  University of Western Sydney

**Simon Chia Keng Hoong**
*Manager, Information Technology*
- Bachelor of Applied Science (Computing)
  Queensland University of Technology

**Angeline Ng Ching Loo**
*Manager, Legal, Secretariat & Compliance*
- Bachelor of Laws (Honours)
  University of London

**Tang Mei Ling**
*Senior Manager, Internal Audit*
- Bachelor of Commerce
  The University of Western Australia
- CPA, CIA

**Ong Peck Li**
*Senior Manager, Finance*
- CPA, FCCA

**Felicia Lim Sok Peng**
*Manager, HR & Admin*
- Graduate Diploma Personnel Management
  Singapore Institute of Management
- Bachelor of Science (Management) (Honours)
  University of London

## Overseas Secondment

**Ahmad Munawar** *(IFS Indonesia)*
*Head, Credit Risk Management*
- Bachelor of Accountancy
  National University of Singapore

**Foo Chuan Yang** *(IFS Thailand)*
*Vice President (Business Development)*
- Master of Business Administration
  National University of Singapore
- Bachelor of Business (Honours)
  Nanyang Technological University

## ECICS Limited

**Tin Chee Kiong**
*Assistant General Manager, Business Development*
- Master of Business Administration
  University of Chicago Graduate School of Business
- Bachelor of Business Administration
  University of New Brunswick, Canada

**Richard Ong Boon Cheow**
*Head, Finance & Operations*
- Master of Business Administration
  Vancouver University
- CPA, FCCA

**Wong Hoe Fai**
*Head, Risk Management*
- Bachelor of Business Administration
  National University of Singapore

# Corporate Information

## BOARD OF DIRECTORS

Lim Hua Min
  Chairman
Gabriel Teo Chen Thye
Manu Bhaskaran
Law Song Keng
Kwah Thiam Hock
Lee Soon Kie
  Executive Director and Group Chief Executive Officer

## AUDIT COMMITTEE

Gabriel Teo Chen Thye
  Chairman
Manu Bhaskaran
Law Song Keng

## EXECUTIVE RESOURCE AND COMPENSATION COMMITTEE

Manu Bhaskaran
  Chairman
Lim Hua Min
Gabriel Teo Chen Thye

## MANAGEMENT COMMITTEE

Lee Soon Kie
  Chairman
Lim Mui Ling
Chionh Yi Chian
Teoh Chun Mooi
Chua Chye Seng
Lua Too Swee

## CREDIT COMMITTEE

Lee Soon Kie
  Chairman
Teoh Chun Mooi
Chionh Yi Chian
Chua Chye Seng
Phyllis Chiu

## REGISTERED OFFICE

7 Temasek Boulevard #10-01
Suntec Tower One
Singapore 038987
Tel: 6270 7711
Fax: 6339 9527
Website: www.ifscapital.com.sg
Email: IFS_Corporate@ifscapital.com.sg

## SHARE REGISTRAR
## M & C Services Private Limited

112 Robinson Road #05-01
Singapore 068902

## COMPANY SECRETARY

Chionh Yi Chian

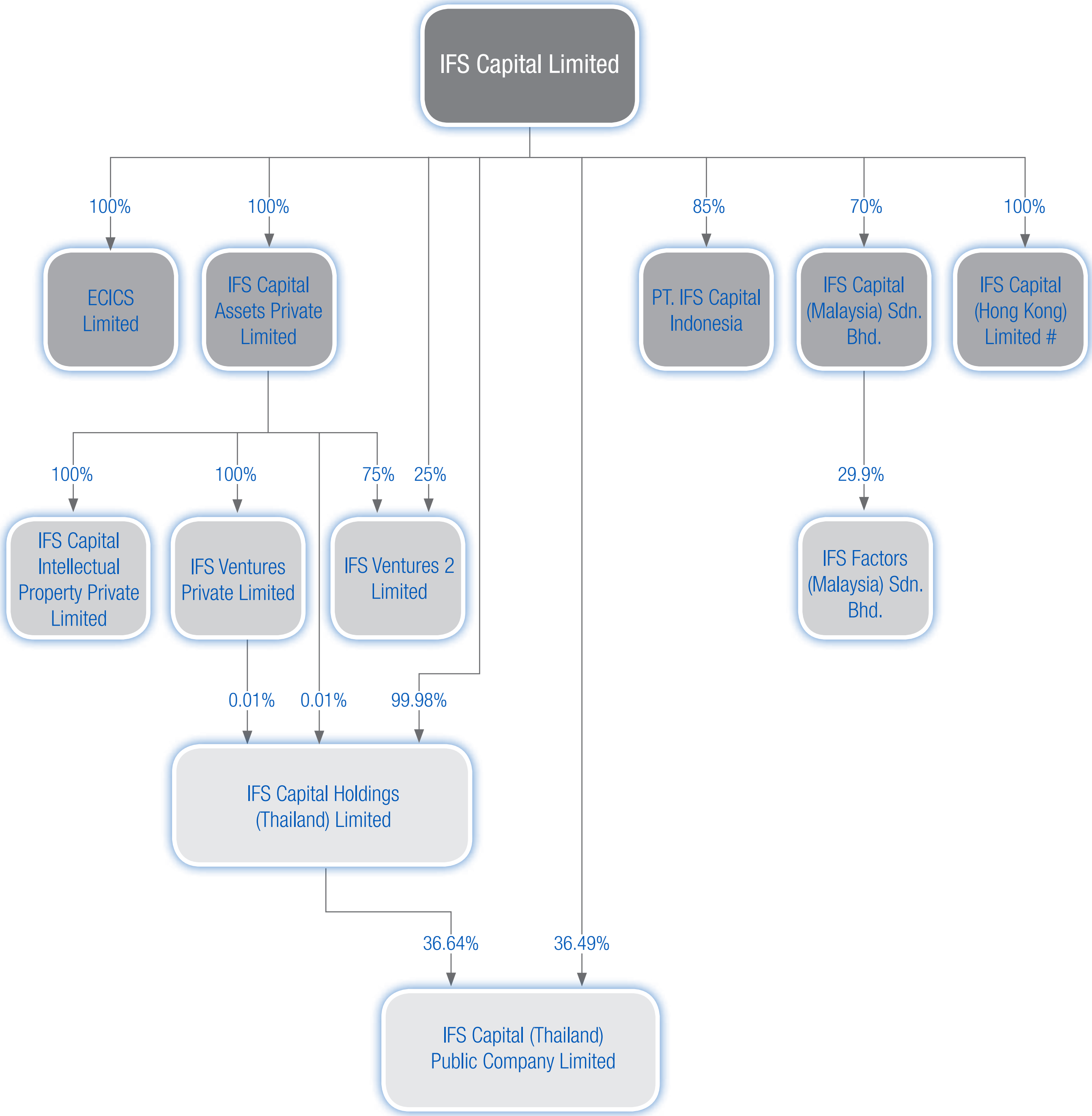
## AUDITORS
## KPMG LLP

Certified Public Accountants
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

## Partner-In-Charge

Jeya Poh Wan S/O K. Suppiah
(since FY2011)

# Corporate Structure of IFS Group




# Dormant/Inactive

# Main Subsidiaries and Affiliated Companies

## SUBSIDIARIES

**ECICS Limited**
7 Temasek Boulevard #10-01
Suntec Tower One
Singapore 038987
Tel : (65) 6337 4779
Fax : (65) 6338 9267

**IFS Capital Assets Private Limited**
**IFS Capital Intellectual Property Private Limited**
**IFS Ventures Private Limited**
**IFS Ventures 2 Limited**
7 Temasek Boulevard #10-01
Suntec Tower One
Singapore 038987
Tel : (65) 6270 5555
Fax : (65) 6339 9527

**IFS Capital (Malaysia) Sdn. Bhd.**
**IFS Factors (Malaysia) Sdn. Bhd.**
Level 17, Menara Park
Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur
Malaysia
Tel : (603) 2161 7080
Fax : (603) 2161 9090

**PT. IFS Capital Indonesia**
ANZ Tower
10th Floor
Jl. Jend. Sudirman Kav. 33A
Jakarta 10220
Indonesia
Tel : (6221) 5790 1090
Fax : (6221) 5790 1080

**IFS Capital (Thailand) Public Company Limited**
**IFS Capital Holdings (Thailand) Limited**
20th Floor, Lumpini Tower
1168/55 Rama IV Road
Tungmahamek Sathorn
Bangkok 10120
Thailand
Tel : (662) 285 6326
Fax : (662) 285 6335

## AFFILIATES

**Advance Finance Public Company Limited**
40th Floor, CRC Tower
All Seasons Place
87/2 Wireless Road
Lumpini Pathumwan
Bangkok 10330
Thailand
Tel : (662) 626 2300
Fax : (662) 626 2301

**Phillip Ventures Enterprise Fund Ltd**
250 North Bridge Road #06-00
Raffles City Tower
Singapore 179101
Tel : (65) 6212 1834
Fax : (65) 6338 9778

# Economic Assessment of Southeast Asia

## OVERVIEW: DESPITE NEAR TERM RISKS, REGION'S LONG-TERM PROSPECTS ARE RISING

### Near term risks exist but the region is better positioned to weather them.

A lethargic global recovery will hold back Southeast Asia's economic growth especially in early 2013. Continued austerity and financial stresses in the Eurozone and a strong fiscal drag in the United States will slow global demand for the region's exports, particularly in the first half of 2013. While Japan's policy makers have been increasing their efforts at monetary and fiscal stimulus, the benefits may take some time to come through. However, as the year progresses and the gradual healing of its credit and housing markets gathers momentum, the American economy will be able to shake off the worst effects of fiscal consolidation and provide a boost to the region in late 2013/early 2014.

The global economy will continue to benefit from the extraordinary monetary measures undertaken by central banks in the United States, Europe and Japan to boost liquidity and support financial institutions. These actions have reduced the risk of extreme scenarios in the Eurozone crisis such as a default by a large economy or a meltdown of major financial institutions. They have bought time for supply side reforms to be implemented which will help underpin an eventual economic recovery. Ultra-easy monetary conditions will prevail in the major economies for some time – serious tightening of monetary policy is unlikely until 2015 in any of the large economies. This will keep interest rates low in our region as well for a long time.

However, these easy global liquidity conditions will also pose challenges for Southeast Asian economies. As the Federal Reserve and Bank of Japan step up quantitative easing, destabilising flows of liquidity into the region's real estate, bond and equity markets can be expected. Further macro-prudential measures will probably be needed by central banks to curb these volatile portfolio capital flows so as to rein in speculative risks, particularly in real estate markets. Another potential challenge is that a depreciating Japanese Yen might spur competitive devaluations by other large countries creating substantial volatility in currency markets. Finally, oil prices reflect a higher political risk premium due to the ongoing political disturbances across the Middle East. If these political risks are realised, oil prices could spike up and harm global economic activity.

Southeast Asia's improved economic resilience will offer some protection from these risks despite the region's continued trade dependence and integration with the volatile global economy. Southeast Asian economies will face stresses every now and then from episodes of financial or economic problems in the global economy but the strong balance sheets in their financial sectors, expanded capacity for counter-cyclical fiscal and monetary policy, greater diversification of their economic base and increasing economic growth momentum will all help the region weather these risks.

### Long term: strong political and economic foundations for economic acceleration are emerging in the region.

In the longer term, Southeast Asian economies will thrive on expanding supply side drivers of growth:

- Regional economic integration is widening with the establishment of the ASEAN Economic Community and other initiatives such as the Greater Mekong Sub-Region and the Iskandar Region (which brings Malaysia and Singapore together).
- The investment share of GDP is also rising as the region's governments seek to make up for years of under-investment in infrastructure and as foreign direct investment returns to the region.
- The region's competitiveness is also improving as rising costs in China erode its cost advantage over ASEAN and as ASEAN countries improve their domestic business climates.

**Singapore**

Singapore's slow growth in 2012 mirrored the global economy's performance, with real GDP growth easing to 1.3%, significantly below the 5.2% growth achieved in 2011. The growth of real net exports unsurprisingly exerted a drag due to weaker global demand.

Robust domestic demand, especially in services lent some economic resilience as construction of public infrastructure has been speeded up. However the outlook for Singapore remains affected by domestic and external driven headwinds:

First, the on-going policy efforts to reduce Singapore's dependence on low cost foreign labour will result in a structurally tight labour market, exacerbating existing inflationary pressures. Singaporean businesses will face increasing cost pressures as rents and wages rise, compounding the effects of a challenging global environment.

Second, the Monetary Authority of Singapore's ("MAS") commitment to rein in inflationary pressures will see a continuation of tight monetary policy in the form of a continuing appreciation of the Singapore Dollar which will reduce Singapore's export competitiveness.

Third, Singapore's exposure to the global economy means that the lingering risks in Europe and Japan will continue to pose a challenge.

However, Singapore's strong long-term fundamentals will continue to put it in a robust position to weather the near-term challenges:

First, the challenges in the near-term (persistent inflation and weaker growth) are partially the result of unavoidable structural changes to promote productivity-driven growth that will eventually place Singapore in a much better position. Long-term investors recognise this and continue to invest significantly in Singapore.

Second, we anticipate domestic demand to remain sturdy on the back of increased infrastructure spending and new production facilities coming on stream in the manufacturing sector.

On the whole, while fears of extreme scenarios have receded, conditions within Europe, the US and Japan will most likely remain sluggish over the next year, leaving global and trade dependent countries' growth subdued. Singapore should average close to 3.0% growth over the next two years as restructuring costs restrain growth. However with price pressures in housing and transport likely to remain persistent into 2013, full-year inflation will remain uncomfortably high at 4.1% in 2013 and 4.0% over the next two years.

Table 1: Singapore Forecasts

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| GDP growth | 5.2 | 1.3 | 2.5 | 3.2 |
| Inflation | 5.2 | 4.5 | 4.1 | 3.9 |
| Current Account/GDP % | 24.6 | 18.6 | 19.4 | 22.2 |
| Currency/USD (end period) | 1.30 | 1.22 | 1.24 | 1.20 |

Source: Historical data collated from CEIC Database and forecasts by Centennial Asia Advisors

## Malaysia

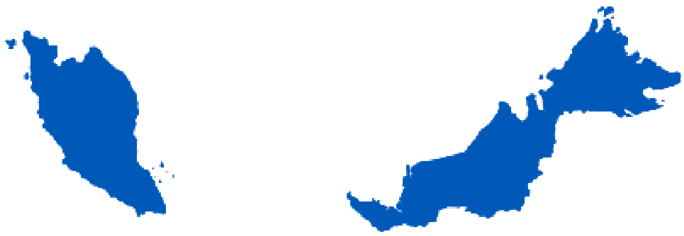
Malaysian growth remained buoyant in 2012, reaching 5.3% for the year as a whole despite the headwinds in the global economy. Fiscal pump-priming policies bolstered domestic demand while private investment activity rose to levels not seen since the 1997-98 financial crisis. The structural improvements in the Malaysian investment environment point to stronger economic resilience.

Malaysia's economic recovery and growth during 2013-14 is supported by several elements.

First, the Economic Transformation Programme ("ETP") advanced investment growth by 22.5% in quarters one to three of 2012, substantially higher than the 6.7% average growth in 2000 to 2010. This accelerated growth in investment reflects a structural improvement because of the increased private sector willingness to invest in future capacity.

Second, Malaysia has been increasingly recognised by foreign investors as a higher quality investment destination. This has been reflected by its increase in the IMD's 2012 World Competitiveness Rankings, Transparency International's Corruption Perception index and IFC/World Bank's 2013 Ease of Doing Business report.

Third, private consumption will remain vibrant, as increased wages and consumer confidence lead to higher consumption spending. Private consumption will be augmented as increasing tourism expenditure climbs on the back of a larger number of visitors. Malaysia experienced greater tourism receipts than Singapore, Japan and Korea in 2011, while also being the only Southeast Asian country in the top 10 tourist destinations. The impact of new tourism initiatives and attractions, such as Legoland, should lead to increasing tourism numbers.



Over the next year or so, the Malaysian economy will also be affected by policy actions to address some long term challenges.

First, the realisation of a goods and services tax and a complementary subsidy rationalisation will be needed to reduce public debt which has risen close to the government's 55% public debt ceiling.

Second, private household debt needs to be dealt with, standing at 140% of disposable income in 2011. This figure significantly exceeds neighbouring countries, with Singapore (105%), Thailand (53%) and Indonesia (38%) maintaining more sustainable levels. As a result, Bank Negara has tightened regulations in attempts to reduce private debts even though a significant buffer of household assets exists. Further measures may be needed to continue reducing debt levels.

Third, continued political stability is necessary as the upcoming general elections are expected to be the most competitive in Malaysian history.

Fourth, Malaysian exports experienced reduced demand from key export partners. However, this is expected to turn around when global economic growth resumes. Opening up previously protected Malaysian sub-sectors will induce investment, augmenting the existing services sector and providing more competitive services.

Table 2: Malaysia Forecasts

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| GDP growth | 5.1 | 5.3 | 5.2 | 5.8 |
| Inflation | 3.2 | 1.7 | 1.9 | 2.0 |
| Current Account/GDP % | 9.2 | 8.6 | 6.3 | 6.0 |
| Currency/USD (end period) | 3.16 | 3.14 | 3.00 | 2.85 |

Source: Historical data collated from CEIC Database and forecasts by Centennial Asia Advisors

## Thailand

Following a rebound from the flood disaster in the first half of the year, economic growth eased during 3Q12 reflecting falling real exports hurt by export-orientated manufacturing output. However, the upturn in global sentiments toward the year end and multiplier effects from reconstruction spending and accelerated production after the flood disaster in 2011 helped Thailand end 2012 on a strong note, climbing 18.9% y/y in 4Q12, well above most consensus estimates, taking full-year growth to a much stronger than expected 6.4%. In 2013, we expect some easing from the 2012 rebound as lacklustre growth in the US and a recession in Europe weigh on sentiments.

In the longer term, however, we expect the Thai economy to accelerate. Corporate sector adjustments in response to the ups and downs of the past couple of decades have strengthened the Thai economy from the bottom up, providing it with flexible and highly adaptive companies. This has endowed Thailand with extraordinary resilience. It is these underlying strengths that helped Thailand rebound quickly from the 2011 floods. Over the next few years, we see a number of positive factors:

First, investment stands to rebound as political risks diminish, enticing businesses with pent up demand for capacity expansion to step up spending.

Second, Thailand's growing reputation as an international manufacturing hub has lead to it placing 12th in the Deloitte Manufacturing competitiveness index with expectations to move into the top 10 by 2015. Thailand continues to excel in the production of hard disk drives, automobile manufacturing, consumer electronics, food processing and tourism. The global scale and competitive expertise of its manufacturing industries has continually allowed Thailand's economy to remain resilient among setbacks.

Third, political stability has improved following the 2011 elections, with the new government of Prime Minister Yingluck Shinawatra fashioning a working relationship with important sections of the political spectrum. The mainstream of public opinion appears to want an end to political discord and the political factions are responding to that demand.

Fourth, accommodative government spending will help provide improved infrastructure and a better business environment. Government policies will continue to remain expansionary as inflation will remain benign amid fiscal stimulus measures. Included in government plans was the approval of a THB2.65tr infrastructure development budget for 2012-16 to develop and advance infrastructure. Exchange rate policies will mostly likely allow the Thai Baht ("THB") to appreciate moderately against the US Dollar, helping to maintain Thailand's competitiveness.

Corporate tax cuts which come into effect in 2012 (down to 23%) and in 2013 (down further to 20%) from the previous 30%, will yield a stimulative environment for corporate development amid improved infrastructure. A minimum wage increase will augment domestic private and government consumption though it will also force companies to adjust to a higher level of costs.

### Table 3: Thailand Forecasts

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| GDP growth | 0.1 | 6.4 | 4.8 | 6.4 |
| Inflation | 3.8 | 3.0 | 3.2 | 3.3 |
| Current Account/GDP % | 1.8 | 0.7 | 0.7 | 2.7 |
| Currency/USD (end period) | 31.17 | 30.80 | 30.70 | 30.20 |

Source: Historical data collated from CEIC Database and forecasts by Centennial Asia Advisors

# Economic Assessment of Southeast Asia

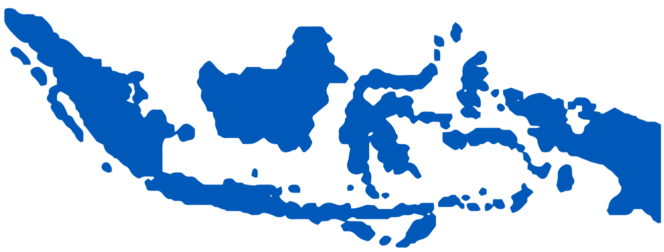
## Indonesia

Indonesia remained resilient in 2012, growing 6.2% in the face of global headwinds and poor performance in neighbouring countries. Strong levels of foreign investment and consumer spending will keep domestic driven growth firm with expectations for growth to accelerate in the coming years.

The underlying macroeconomic picture in Indonesia remains positive. First, the structural shift towards greater investment, as seen by Indonesia's investment to GDP ratio climbing above 30% in 2009 for the first time, has not changed. In the 2012 AT Kearney Foreign Direct Investment Confidence Index, Indonesia placed within the top 10 for the first time. These trends are underscored by the strong resilience, favourable demographic dividend, rising middle class and growing pivot towards Asia.

Second, the positive investment trends have been matched by a more confident consumer, inducing a positive feedback loop. Domestic confidence in Indonesia has climbed to the highest levels in 8 years. Average job growth over the last two years has nearly doubled, adding some 2.4 million per year. Combined with the lowest headline inflation in any 3-year period in its history, domestic confidence looks likely to hold firm.

Despite this, protectionist policies and increasing dependence on commodity exports could limit growth while increasing vulnerability to capital flows and demand shocks. Labour and investment policies are also increasingly restrictive, while questionable choices by the Indonesian courts undermine investor confidence.



First, an increasing reliance on net exports as a driver of real growth will render Indonesia susceptible to global slowdowns. The slowing global economy has already hurt growth. Moreover, current account turned into a deficit in 2012 for the first time since 1997 which has placed downward pressure on the currency. With the country more reliant on volatile capital flows to fund the current account deficit, Indonesia generally and the Rupiah specifically are more susceptible to changes in foreign investor perceptions and credit downgrades. The growing proportion of relatively liquid assets such as government bonds held by foreigners underlines this risk. If confidence in the currency weakens further, it could induce an accelerated sell off in such "hot money" instruments, weakening the currency even further. We expect Bank Indonesia to tighten policies in order to keep inflation and the current account deficit under control.

Second, an increasingly inward slant to policies could lead to further spikes in the trade and current account deficits as restrictions on exports of raw materials, natural gas and even coal continue to be either enforced or introduced. Investment policies for the finance and mining sectors become increasingly restrictive and negatively perceived. Foreign involvement in oil and gas has become clouded with uncertainty as the courts recently ceased the upstream operations of BP Migas. Labour policies have also become increasingly erratic and restrictive, as outsourcing and contacting labour has been banned, coupled with a minimum wages hike of up to 45% introduced in 2012.

Table 4: Indonesia Forecasts

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| GDP growth | 6.5 | 6.2 | 6.4 | 7.0 |
| Inflation | 5.4 | 4.3 | 4.5 | 4.7 |
| Current Account/GDP % | 0.2 | -3.0 | -1.9 | -1.2 |
| Currency/USD (end period) | 9,088 | 9,680 | 9,600 | 9,500 |

Source: Historical data collated from CEIC Database and forecasts by Centennial Asia Advisors

# Corporate Social Responsibility

The Group recognizes its social responsibility as a corporate citizen and is committed to fulfill these.

The Group firstly recognizes the interests of multiple stakeholders beyond shareholders who may have an interest in or whose interests may be impacted by the Group. Moreover social responsibility goes beyond contributions to charities and has to be balanced against the differing interests of different stakeholders. It is important to recognise that not all stakeholders' interests are necessarily economic.

Secondly the Group recognizes the need for balance between divergent stakeholder interests in its daily operations and interactions.

This stakeholder management strategy involves the following steps:

- Identification of stakeholders
- Identification of stakeholders' interests
- A reward scheme for these different stakeholders
- Responsibility of stakeholder management within IFS

The Group recognises the following stakeholders:

- Shareholders
- Clients
- Banks, bond holders and other creditors
- Business partners & associates
- Suppliers
- Regulatory authorities
- Management and staff

Each stakeholder interests are mapped out and appropriate strategies are devised to ensure they are taken into account. Thus for example, bankers to the Group are treated equally and no preferential treatment is given to any bank.

In some cases, specific stakeholders' interests are spelt out in internal policies and manuals. For example, the Group's risk management policies spelt out the risks that the Group is able to assume without affecting the interests of shareholders.

The Internal Audit and Compliance Divisions ensure that the Group's responsibilities are fulfilled with respect to Government laws and regulations. In some cases, where there is a lack of regulation, a best practise approach is adopted.

The Group's employment policies follow recommended guidelines including in Singapore, the Tripartite Alliance for Fair Employment Practises on non-discriminatory and ethical practices.

We also recognise that individuals within each stakeholder group may have different causes and social or community projects which they are actively involved in. The Group encourages staff to help and support their respective communities.

The Singapore companies participated in the Corporate Share Programme under the umbrella of Community Chest ("Chest"). All new staff upon joining are given a Share Contribution Form to encourage them to pledge a monthly deduction from their salaries to Chest and the Company will match dollar-for-dollar the contributions made by its employees. The donations will be channelled to the various social service and charity programmes supported by Chest. We also sponsored a team of our staff to participate other organisation's event such as the JP Morgan Corporate Challenge 2012 in which the proceeds were used to support some charities.

Beyond Singapore, our Thailand subsidiary made worthy contributions towards various initiatives in community projects such as sponsoring of scholarships and other necessities to the needy students of Baan Mae Salong Santi Kiri School, Doi Mae Salong, Chang Rai, "Coin For Life" project for underprivileged children under the organization of ONYX Hospitality Group.

# Corporate Governance Report

The Board of Directors is committed to increasing the level of corporate governance in the Company in order to protect the interests of its shareholders. This report sets out the corporate governance practices of the Company during the financial year ended 31 December 2012, with specific reference to the principles of the Singapore Code of Corporate Governance 2005 (the "Code").

On 2 May 2012, the revised Code of Corporate Governance 2012 ("Code 2012") was issued by the Monetary Authority of Singapore. The Code 2012 will apply to the Company in respect of its financial year ending 31 December 2013. The Company already complies with some of the key revised guidelines, such as those relating to the appointment of a lead independent director and the proportion of independent directors on the board, and is working to adopt the other changes, where appropriate.

## 1. The BOARD'S CONDUCT OF AFFAIRS

**Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with management to achieve this and the management remains accountable to the Board.**

1.1 The Board oversees the businesses and affairs of the Group, sets the strategic direction, guides and monitors the performance of management, reviews the Group's financial performance and framework of internal controls and risk management procedures and monitors standards of performance.

To assist the Board in the execution of its responsibilities, Board committees, namely the Audit Committee and the Executive Resource and Compensation Committee, have been constituted with clear terms of reference. The Board also appointed the Credit Committee, comprising of Chief Executive Officer and senior officers of the Company, which assesses, reviews and makes decisions on credit risks that arise in the course of the financial business activities of the Company within the authority limits imposed by the Board. The details on the composition and functions of the Audit Committee and the Executive Resource and Compensation Committee can be found in the subsequent sections in this Report.

1.2 The Board has delegated to management the day-to-day operations and the implementation of systems of internal control. The Chief Executive Officer is assisted by a Management Committee chaired by the Chief Executive Officer and comprising senior management staff. In the absence of the Chief Executive Officer, the Management Committee is authorised to make decisions on his behalf. The Company has an internal audit department which monitors the internal controls and reports its findings and recommendations to the Audit Committee. The work of the internal audit department is guided by an assessment of the key areas of risk in the Group's operations.

Matters which require the Board's approval include the following:

- Announcements of financial results;
- Statutory accounts;
- Declaration of dividends;
- Budgets and financial planning;
- Corporate Strategy;
- Establishment of joint ventures;
- Investments or increase in investments in businesses, projects, subsidiaries and associated companies;
- Acquisition or disposal of significant assets, businesses, subsidiaries or associated companies;
- Capital expenditure or any expenditure of significant amount;
- Borrowings of the Company beyond a certain limit in amount as set by the Board; and
- All major transactions or events.

1.3 The Board holds five scheduled meetings in a year. In addition, special meetings may be convened as and when warranted to deliberate on urgent substantive matters.

During the financial year ended 31 December 2012, the Board of Directors held five meetings.

1.4 The attendance of the Board members at the Board meetings and meetings of the Audit Committee and the Executive Resource and Compensation Committee during the financial year ended 31 December 2012 is set out as follows:

| Name of Directors | Board | | Audit Committee | | ERCC | |
|---|---|---|---|---|---|---|
| | No. of Meetings | Attendance | No. of Meetings | Attendance | No. of Meetings | Attendance |
| Lim Hua Min | 5 | 5 | NA | NA | 2 | 2 |
| Gabriel Teo Chen Thye | 5 | 5 | 4 | 4 | 2 | 2 |
| Law Song Keng | 5 | 5 | 4 | 4 | NA | NA |
| Manu Bhaskaran | 5 | 5 | 4 | 4 | 2 | 2 |
| Lee Soon Kie | 5 | 5 | NA | NA | NA | NA |
| Kwah Thiam Hock | 5 | 5 | NA | NA | NA | NA |

*ERCC* *Executive Resource and Compensation Committee*
*NA* *Not applicable*

1.5 The Company conducts comprehensive orientation programmes to familiarise new directors with the Company's business and policies. From time to time, the directors are provided with briefings or updates on relevant changes in laws and regulations, financial reporting standards as well as on industry trends and developments relevant to the Company's business operations. Where suitable training courses in areas relevant to the directors are available, the directors are also encouraged to attend.

## 2. BOARD COMPOSITION AND GUIDANCE

**Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.**

2.1 As at 31 December 2012, the Board comprises 6 directors of whom 3 are independent directors. The nature of the directors' appointments on the Board is set out as follows:

| Directors | Board Membership |
|---|---|
| Lim Hua Min | Non-Executive, Non-Independent, Chairman |
| Gabriel Teo Chen Thye | Independent |
| Law Song Keng | Independent |
| Manu Bhaskaran | Independent |
| Lee Soon Kie | Executive, Group Chief Executive Officer |
| Kwah Thiam Hock* | Non-Executive, Non-Independent |

** Mr Kwah Thiam Hock was re-designated as an independent director on 23 January 2013.*

Subsequent to the financial year ended 31 December 2012, Mr Kwah Thiam Hock was re-designated from a non-independent director to an independent director on 23 January 2013. With the re-designation, the Board comprises a majority of independent directors.

2.2 Details of the directors' academic and professional qualifications, appointment dates on the Board and other appointments are set out on pages 30 to 31.

2.3 The Board has examined its size and is satisfied that a size of 6 members is currently appropriate for the Company.

## 3. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

**Principle 3: There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.**

3.1 The Chairman and the Chief Executive Officer of the Company are separate persons and are not related to each other.

3.2 The Chairman is a Non-Executive Director while the Chief Executive Officer is an Executive Director. The roles of the Chairman and the Chief Executive Officer are kept separate and the division of responsibilities between them are set out in writing.

The Chairman is primarily responsible for the workings of the Board. The Chairman's responsibilities include approving the schedules of meetings and meeting agenda (with the assistance of the Company Secretary). As Chairman of the Board, he also leads the Board in its discussions and deliberation, facilitates effective contribution by Non-Executive Directors and exercises control over the timeliness of information flow between the Board and management.

The Chief Executive Officer manages the business of the Company, implements the Board's decisions and is responsible for the day-to-day operations of the Company.

3.3 Subsequent to the financial year ended 31 December 2012, Mr Gabriel Teo Chen Thye was appointed as a Lead Independent Director by the Board with effect from 23 January 2013. The role of a Lead Independent Director includes meeting with the independent directors periodically without the presence of other directors and where necessary to provide feedback to the Chairman after such meetings. He will also be available to shareholders where they have concerns for matters which contact through the normal channels of the Chairman, the Chief Executive Officer or Chief Financial Officer has failed to resolve, or where such contact is inappropriate.

## 4. BOARD MEMBERSHIP

**Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board.**

4.1 The Board has established the Executive Resource and Compensation Committee that performs both the roles of nominating committee and remuneration committee.

4.2 As at 31 December 2012, the Executive Resource and Compensation Committee comprises 3 members, the majority of whom are independent:

| | |
|---|---|
| Manu Bhaskaran | Chairman, Independent |
| Lim Hua Min | Member, Non-Independent |
| Gabriel Teo Chen Thye | Member, Independent |

4.3 The Executive Resource and Compensation Committee functions under the terms of reference as approved by the Board. Under the terms of reference, the Executive Resource and Compensation Committee (in respect of its function as a nominating committee):

(i) assists the Board to assess the effectiveness of the Board as a whole as well as the contribution of the directors to the effectiveness of the Board;

(ii) establishes a formal process for the Group on the appointment of directors, re-nomination and re-election of directors;

(iii) considers and determines the independence of the directors, at least annually; and

(iv) recommends to the Board on all Board appointments and re-appointments.

The directors submit themselves for re-nomination and re-election at regular intervals in accordance with the Company's Articles of Association which require one-third of the directors for the time being to retire from office by rotation at each Annual General Meeting (or, if the number is not a multiple of three, the number nearest to but not less than one-third).

To address the time commitments of directors who sit on multiple boards, the meeting dates of the Board and Board committees are scheduled in advance at the beginning of each calendar year.

Any proposed appointment of potential new directors will be reviewed by the Executive Resource and Compensation Committee before the recommendation is put up to the Board for its approval. In accordance with the Company's Articles of Association, all new appointees to the Board, if not elected by the shareholders at the Annual General Meeting, will only hold office until the next Annual General Meeting after the date of their appointment whereupon they will seek re-election at the Annual General Meeting.

## 5. BOARD PERFORMANCE

**Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.**

5.1 In the beginning of each year, the Executive Resource and Compensation Committee assesses the effectiveness of the Board through a self-assessment process that involves the completion of evaluation questionnaires on issues such as board performance, effectiveness and board composition as well as a review of the collated results.

5.2 The Board feels that Board performance should be measured based on its long-term value creation for shareholders and other stakeholders and is ultimately reflected in the long-term performance of the Group. The financial indicators, as set out in the Code as guides for the evaluation of the performance of the Board, is more of a measurement of management's performance and less applicable to the directors. Although the Board uses some indicators such as average return on equity of comparable companies in the industry as a guide, a more important consideration is that the Board, through the Executive Resource and Compensation Committee, has ensured from the outset that it comprises directors with the requisite blend of background, experience and knowledge for the Group's businesses and that the directors bring to the Board their respective perspectives and views to enable balanced and well-considered decisions to be made.

## 6. ACCESS TO INFORMATION

**Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.**

6.1 Management provides all the members of the Board with a progress report on the performance of the Group (including group consolidated accounts) on a monthly basis.

6.2 Where there are Board meetings, the Board members are provided with board papers in advance of meetings so that sufficient time is given to the Board members to prepare. The board papers will set out information which includes background or explanatory information relating to the matters to be brought before the Board. In respect of budgets, any material variances between projections and actual results are explained.

The Chairman, with the assistance of the Company Secretary, exercises control over the quality and timeliness of information flow between the Board and management.

6.3 The directors have direct access to the Company's senior management and the Company Secretary. The Company Secretary attends all the board meetings. The directors, whether as a group or individually, are also entitled to seek independent professional advice with costs to be borne by the Company on any issue(s) which may arise in the course of performing their duties.

## 7. PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

**Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.**

7.1 The Executive Resource and Compensation Committee also performs the role of a remuneration committee. The Committee comprises entirely of Non-Executive Directors, the majority of whom, including the Chairman, are independent.

7.2 Pursuant to the terms of reference, the Committee reviews and approves the remuneration packages for each director and the key executives as well as their terms of employment, and also decides on policies relating to remuneration and incentive programs (including staff benefits and special bonuses) for the staff of the Group. The Committee, if it requires, can seek expert advice on executive compensation matters from professional firms.

## 8. LEVEL AND MIX OF REMUNERATION

**Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.**

8.1 The remuneration package of the Chief Executive Officer/Executive Director comprises of a fixed component which is benchmarked against the financial services industry and a variable component which is linked to the performance of the Group as well as the individual performance. An annual performance incentive plan implemented by the Group links rewards purely to corporate and individual performance.

8.2 For the Non-Executive Directors, they are remunerated based on a framework of basic director fees and committee fees which is formulated taking into account factors such as responsibilities, level of contribution and time spent. The framework is reviewed by the Executive Resource and Compensation Committee and endorsed by the Board.

8.3 The directors' fees payable to the Non-Executive Directors are subject to shareholders' approval at the Annual General Meeting. The Chief Executive Officer/Executive Director does not receive director's fees.

8.4 The service contract of the Chief Executive Officer/Executive Director does not contain onerous removal clauses.

**Deviation - Guideline 8.3:** There is no fixed appointment period of the Chief Executive Officer/Executive Director in the service contract. However, the service contract contains the usual notice of termination clause of less than 6 months and there are no onerous removal clauses.

## 9. DISCLOSURES ON REMUNERATION

**Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.**

9.1 A breakdown showing the level and mix of each individual director's remuneration payable for the financial year ended 31 December 2012 is as follows:

| | Number of Directors | |
|---|---|---|
| **Remuneration band** | **FYE 31 Dec 2012** | **FYE 31 Dec 2011** |
| $500,000 to below $750,000 | 1 | 1 |
| $250,000 to below $500,000 | 0 | 0 |
| Below $250,000 | 5 | 6 |
| **Total** | **6** | **7*** |

** includes 1 director who retired during the course of the financial year ended 31 December 2011*

| Remuneration Band/ Directors of Company | | Directors' Fees* % | Fixed Pay % | Annual Wage Supplement and Variable Bonus % | Allowances & Others % | Total % |
|---|---|---|---|---|---|---|
| (i) | **$500,000 to below $750,000** | | | | | |
| | Mr Lee Soon Kie | - | 57 | 37 | 6 | 100 |
| (ii) | **$250,000 to below $500,000** | | | | | |
| | - | - | - | - | - | - |
| (iii) | **Below $250,000** | | | | | |
| | Mr Lim Hua Min | 100 | - | - | - | 100 |
| | Mr Gabriel Teo Chen Thye | 100 | - | - | - | 100 |
| | Mr Law Song Keng | 100 | - | - | - | 100 |
| | Mr Manu Bhaskaran | 100 | - | - | - | 100 |
| | Mr Kwah Thiam Hock | 100 | - | - | - | 100 |

** Directors' Fees refer to fees for financial year ended 31 December 2012, subject to approval by shareholders at the forthcoming AGM.*

9.2 There are no employees who are immediate family members of a director or the Chief Executive Officer and whose remuneration exceeds $150,000 during the year.

9.3 The breakdown of the five most highly compensated key executives of the Group (who are not also directors of the Company) into remuneration bands of $250,000 is as follows:

| **Remuneration band** | **FYE 31 Dec 2012** | **FYE 31 Dec 2011** |
|---|---|---|
| $500,000 to below $750,000 | 1 | 0 |
| $250,000 to below $500,000 | 3 | 3 |
| Below $250,000 | 1 | 2 |
| **Total** | **5** | **5** |

**Deviation – Guideline 9.2:** The Code recommends that the report should set out the names of at least the top 5 key executives (who are not also directors) earning remuneration which falls within bands of $250,000. Given the competitive industry conditions, the Board, after weighing the advantages and disadvantages, feels that it is in the interests of the Company that the names of the top 5 key executives (who are not directors) and the details of their remuneration are not disclosed.

## 10. ACCOUNTABILITY

**Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.**

10.1 The Board provides shareholders with quarterly and annual financial reports. Results for the first three quarters are released to the shareholders within 45 days of the reporting period while the full-year results are released to the shareholders within 60 days of the financial year-end. In presenting the financial reports, the Board aims to provide a balanced and understandable assessment of the Group's financial performance and prospects.

10.2 Management provides all the members of the Board with management accounts on the performance of the Group on a monthly basis.

## 11. AUDIT COMMITTEE

**Principle 11: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.**

11.1 As at 31 December 2012, the Audit Committee comprises 3 members, all of whom are independent Non-Executive Directors:

| | |
|---|---|
| Gabriel Teo Chen Thye | Chairman, Independent |
| Law Song Keng | Member, Independent |
| Manu Bhaskaran | Member, Independent |

The Board is of the view that the members of the Audit Committee have the requisite experience and expertise to discharge the functions of the Audit Committee.

11.2 The Audit Committee functions under the terms of reference approved by the Board which sets out its duties and responsibilities. The role of the Audit Committee is mainly to oversee the adequacy of the overall internal control functions, the internal audit functions within the Group, the relationship of those functions to external audit, the scope of audit by the external auditor as well as their independence. The Audit Committee reviews the quarterly and annual announcements of the Group's financial results as well as the financial statements of the Group and the Company before they are submitted to the Board for approval. The Audit Committee also reviews interested person transactions (as defined in Chapter 9 of SGX-ST Listing Manual).

11.3 In performing its functions, the Audit Committee met with the internal and external auditors, without the presence of management, and reviewed the overall scope of both the internal and external audits, and the assistance given by management to the auditors.

The Audit Committee also undertook the annual review of the independence of external auditors through discussions with the external auditors as well as reviewing all the non-audit services provided by the external auditors and the fees payable to them. The Audit Committee is satisfied that the non-audit services performed by them would not affect the independence of the external auditors and has recommended the re-appointment of the external auditors at the Company's forthcoming Annual General Meeting.

11.4 The Audit Committee is authorised to investigate any matters within its terms of reference, with full access to and co-operation by the management. The Audit Committee also has full discretion to invite any director or executive officer to attend its meetings and reasonable resources to carry out its functions.

11.5 The Company has in place a whistle-blowing framework whereby staff of the Group can have access to the Audit Committee Chairman, Chief Executive Officer, Head of Internal Audit, Head of Human Resource and Head of Compliance to raise concerns of any improprieties in confidence. The Audit Committee reviews this framework with an objective to ensure that arrangements are in place for independent investigation of such concerns raised and for appropriate follow-up action.

## 12. INTERNAL CONTROLS

**Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.**

12.1 The Audit Committee reviews the adequacy of the internal control system that includes internal financial, operational and compliance controls, and risk management policies and systems established by management, with the assistance of the internal and external auditors. Any significant internal control weaknesses noted during their audits are highlighted to the Audit Committee and the internal auditors assist in monitoring that necessary actions are taken by management.

12.2 Risk assessment and evaluation is an ongoing process which forms an integral part of the Group's business cycle. The Group has in general adopted a standard procedure in managing risks. This includes the identification and evaluation of priority risks and a monitoring mechanism to respond to changes within both the enterprise and the business environment. In order to ensure smooth running of the risk management process, key business objectives have been communicated by management to the heads of the various departments in the Group. The Group's operating units are aware of their responsibilities for the internal control systems and the role they play in ensuring that the financial results are properly stated in accordance with statutory requirements and the Group's policies. The Group has also begun conducting control self-assessment workshops or surveys for the various business units, functions or processes as part of the risk management and evaluation process to review the key risks of the Group and the internal controls in place to manage or mitigate those risks.

12.3 Based on the risk management framework and the system of internal controls established and maintained by the Group, information furnished to the Board, the internal and external audits conducted and the reviews performed by management, the Board, with the concurrence of the Audit Committee, is of the opinion that the Group's system of internal controls addressing financial, operational and compliance risks currently maintained by management is adequate to meet the Group's current business objectives.

The Board notes that all internal control systems contain its inherent limitations and no system of internal controls can provide absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities. Hence, the system of internal controls can only provide reasonable, but not absolute, assurance against material financial misstatement or loss.

## 13. INTERNAL AUDIT

**Principle 13: The company should establish an internal audit function that is independent of the activities it audits.**

13.1 The Group has an in-house internal audit function that is independent of the activities it audits. The Internal Audit department was set up to ensure internal controls are adequate and to monitor the performance and effective application of the internal audit procedures with regards to these controls. In the course of their work, the internal auditors' activities are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

13.2 The internal auditors report primarily to the Chairman of the Audit Committee on audit matters and to the Chief Executive Officer on administrative matters.

13.3 The Audit Committee ensures that the internal audit function has adequate resources and has appropriate standing within the Group. The Committee, on an annual basis, assesses the effectiveness of the internal auditors by examining:

(i) the scope of the internal auditors' work;

(ii) the quality of their reports;

(iii) the reporting lines of the internal auditors within the Group;

(iv) their relationship with the external auditors; and

(v) their independence of the areas reviewed.

## 14. COMMUNICATION WITH SHAREHOLDERS

**Principle 14: Companies should engage in regular, effective and fair communication with shareholders.**

14.1 The Board strives for timeliness in its disclosures to shareholders and the public and it is the Board's policy to keep shareholders informed of material developments that would have an impact on the Company or the Group through announcements via SGXNET and at times, press releases.

## 15. GREATER SHAREHOLDER PARTICIPATION

**Principle 15: Companies should encourage greater shareholder participation at annual general meetings, and allow shareholders the opportunity to communicate their views on various matters affecting the company.**

15.1 Shareholders are afforded the opportunity to raise relevant questions and to communicate their views at shareholders' meetings.

The Articles of Association allow a shareholder to appoint one or two proxies to attend and vote in his place at general meetings.

**Deviation – Guideline 15.1:** Other methods of voting in absentia (like voting by electronic mail, email or fax) as recommended by the Code are not made available at the moment. Voting in absentia may only be possible after careful study to ensure that the integrity of the information and authentication of identity of shareholders through the web are not compromised.

15.2 Chairpersons of the Audit Committee and the Executive Resource and Compensation Committee and the external auditors attend annual general meetings to address any questions which may be raised by the shareholders at such meetings.

## 16. CODE ON DEALINGS IN SECURITIES

The Company has issued a Code on Dealings in IFS Securities (the "Internal Code") to directors and key employees (including employees with access to price-sensitive information in relation to the Company's shares) of the Company, setting out a code of conduct on dealings in the Company's shares by these persons in line with the best practices set out in Rule 1207(19) of the SGX-ST Listing Manual. The guidelines under the Internal Code, *inter alia*, provide that officers (i) should not deal in the Company's shares on short-term considerations; and (ii) should not deal in the Company's shares during the period commencing two weeks before the release of the Company's results for the first three quarters and one month before the announcement of the Company's full-year financial results, and ending on the date of announcement.

# Corporate Governance Report

Details of the directors' appointment dates on the Company's Board, academic and professional qualifications and other major appointments:

| Name of Director | Academic & Professional Qualifications | IFS Board<br>(a) Date First Appointed<br>(b) Date Last Re-elected | (a) Present directorships in other listed companies<br>(b) Other major appointments |
|---|---|---|---|
| Lim Hua Min | – Bachelor of Science (Honours), University of Surrey, England (1968)<br>– Master of Science, Imperial College, London University (1969) | (a) 20.05.2003<br>(b) 27.04.2010 | (a) Walker Crips Group plc. (UK)<br>Walker Crips Stockbrokers Limited (UK)<br>(b) Member, Board of Directors, Phillip Securities Pte Ltd<br>Member, Board of Directors, Phillip Futures Pte Ltd<br>Member, Board of Directors, Phillip Financial Pte Ltd |
| Gabriel Teo Chen Thye | – Bachelor of Business Administration, University of Singapore (1975)<br>– Masters in Business Administration, Cranfield School of Management (UK) (1980) | (a) 02.11.1999<br>(b) 27.04.2011 | (a) Sunningdale Tech Ltd<br>(b) Member, Board of Directors, NTUC Income Insurance Co-operative Limited<br>Member, Board of Directors, SP Services Ltd<br>Chairman, Board of Directors, One Marina Property Services Pte Ltd<br>Member, Board of Governors, St Gabriel's Foundation<br>Chairman, School Management Committee, Assumption Pathway School |
| Law Song Keng | – Bachelor of Science, (Maths, First Class Honours), University of Singapore (1968)<br>– Master of Science (Actuarial Science), Northeastern University, USA (1970)<br>– Fellowship of Society of Actuaries, USA (1978) | (a) 31.01.2011<br>(b) 27.04.2011 | (a) Great Eastern Holdings Ltd<br>(b) Member, Board of Directors, Asia Capital Reinsurance Group Pte Ltd<br>Member, Board of Directors, ACR Capital Holdings Pte Ltd |

| Name of Director | Academic & Professional Qualifications | IFS Board<br>(a) Date First Appointed<br>(b) Date Last Re-elected | (a) Present directorships in other listed companies<br>(b) Other major appointments |
|---|---|---|---|
| Manu Bhaskaran | – Bachelor of Arts (Honours), Magdalene College, Cambridge University (1980)<br>– Masters in Public Administration, John F Kennedy School of Government, Harvard University (1987)<br>– Chartered Financial Analyst (1992) | (a) 26.02.2004 (previously director of IFS from 26.06.2002 to 20.05.2003)<br>(b) 20.04.2012 | (a) -<br>(b) Council Member, Singapore Institute of International Affairs<br>Vice President, Economic Society of Singapore<br>Senior Adjunct Fellow, Institute of Policies Studies |
| Lee Soon Kie | – Bachelor of Arts, National University of Singapore (1983)<br>– Master of Science, University of Wales, Aberystwyth, UK (2002) | (a) 21.03.2003<br>(b) 20.04.2012 | (a) IFS Capital (Thailand) Public Company Limited<br>(b) - |
| Kwah Thiam Hock | – Bachelor of Accountancy, University of Singapore (1973)<br>– Fellow, Certified Public Accountant, Institute of Certified Public Accountants of Singapore<br>– Fellow, Certified Public Accountant, Australian Society of Accountants<br>– Fellow, Association of Chartered Certified Accountants (UK) | (a) 04.05.1987<br>(b) 27.04.2010 | (a) Select Group Limited<br>Wilmar International Limited<br>Excelpoint Technology Limited<br>Teho International Inc Ltd<br>(b) - |

# Financial Report

# Directors' Report

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

## Directors

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

Lim Hua Min
Gabriel Teo Chen Thye
Manu Bhaskaran
Lee Soon Kie
Kwah Thiam Hock
Law Song Keng

## Directors' interests

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

| Name of director and corporation in which interests are held | Holdings at beginning of the year | Holdings at end of the year |
|---|---|---|
| **Lim Hua Min** | | |
| IFS Capital Limited | | |
| - ordinary shares | | |
| - deemed interests | 60,761,657 | 60,761,657 |
| **Lee Soon Kie** | | |
| IFS Capital Limited | | |
| - ordinary shares | | |
| - interest held | 1,172,900 | 1,386,900 |
| IFS Capital (Thailand) Public Company Limited | 400,000 | 400,000 |
| IFS Factors (Malaysia) Sdn. Bhd. | 1 | 1 |
| **Kwah Thiam Hock** | | |
| IFS Capital Limited | | |
| - ordinary shares | | |
| - interest held | 508,200 | 508,200 |

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

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

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

Except for the salaries, bonuses and fees and those benefits that are disclosed in this report and in Notes 32 and 36 to the financial statements, since the end of the financial year, no director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

## Audit Committee

The members of the Audit Committee during the year and at the date of this report comprises the following Non-Executive Directors:

| | |
|---|---|
| Gabriel Teo Chen Thye (Chairman) | Independent |
| Manu Bhaskaran | Independent |
| Law Song Keng | Independent |

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

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

- assistance provided by the Company's officers to the internal and external auditors;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the SGX-ST Listing Manual).

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

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

In appointing the audit firm for the Group, the Audit Committee is satisfied that the Company has complied with Rules 712, 715 and 716 of the SGX-ST Listing Manual.

# Directors' Report

## Auditors

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

On behalf of the Board of Directors

**Lee Soon Kie**
Director

**Kwah Thiam Hock**
Director

Singapore
8 March 2013

# Statement by Directors

In our opinion:

(a) the financial statements set out on pages 39 to 131 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

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

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

On behalf of the Board of Directors

**Lee Soon Kie**
Director

**Kwah Thiam Hock**
Director

Singapore
8 March 2013

# Independent Auditors' Report

Members of the Company
IFS Capital Limited

## Report on the financial statements

We have audited the accompanying financial statements of IFS Capital Limited ("the Company") and its subsidiaries ("the Group"), which comprise the statement of financial position of the Group and the Company as at 31 December 2012, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 39 to 131.

*Management's responsibility for the financial statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 ("the Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

*Auditors' responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

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

# Independent Auditors' Report

## Report on other legal and regulatory requirements

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

KPMG LLP

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

Singapore
8 March 2013

# Statement of Financial Position

As at 31 December 2012

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 4 | **18,572** | 19,226 | **16,202** | 16,655 |
| Intangible assets | 5 | **680** | 1,912 | **250** | 311 |
| Subsidiaries | 6 | **-** | - | **63,679** | 75,679 |
| Other investments | 7 | **25,178** | 33,293 | **13,029** | 6,579 |
| Loans, advances, hire purchase and leasing receivables | 8 | **78,796** | 64,248 | **54,516** | 44,298 |
| Deferred tax assets | 10 | **2,566** | 2,792 | **-** | 25 |
| | | **125,792** | 121,471 | **147,676** | 143,547 |
| **Current assets** | | | | | |
| Reinsurers' share of insurance contract provisions | 11 | **9,112** | 9,333 | **-** | - |
| Insurance receivables | 12 | **928** | 680 | **-** | - |
| Trade and other receivables | 13 | **223,400** | 212,944 | **95,272** | 124,736 |
| Other investments | 7 | **20,013** | 19,442 | **1,499** | - |
| Cash and cash equivalents | 16 | **53,356** | 29,650 | **9,427** | 7,504 |
| | | **306,809** | 272,049 | **106,198** | 132,240 |
| **Total assets** | | **432,601** | 393,520 | **253,874** | 275,787 |
| **Equity** | | | | | |
| Share capital | 18 | **88,032** | 88,032 | **88,032** | 88,032 |
| Other reserves | 19 | **(3,245)** | (3,132) | **2,941** | (20) |
| Accumulated profits | | **54,479** | 49,653 | **22,742** | 22,511 |
| **Equity attributable to owners of the Company** | | **139,266** | 134,553 | **113,715** | 110,523 |
| Non-controlling interests | | **9,564** | 9,114 | **-** | - |
| **Total equity** | | **148,830** | 143,667 | **113,715** | 110,523 |
| **Non-current liabilities** | | | | | |
| Interest-bearing borrowings | 20 | **43,132** | 34,306 | **31,657** | 26,762 |
| Employee benefits | 21 | **866** | 758 | **-** | - |
| Deferred tax liabilities | 10 | **655** | 32 | **627** | - |
| | | **44,653** | 35,096 | **32,284** | 26,762 |
| **Current liabilities** | | | | | |
| Trade and other payables | 22 | **11,698** | 13,103 | **7,861** | 18,917 |
| Insurance payables | 24 | **3,675** | 2,764 | **-** | - |
| Interest-bearing borrowings | 20 | **206,794** | 181,061 | **99,365** | 118,867 |
| Insurance contract provisions for | | | | | |
| - gross unexpired risks | 11 | **11,864** | 12,530 | **-** | - |
| - gross insurance claims | 11 | **2,557** | 3,075 | **-** | - |
| Current tax payable | | **2,530** | 2,224 | **649** | 718 |
| | | **239,118** | 214,757 | **107,875** | 138,502 |
| **Total liabilities** | | **283,771** | 249,853 | **140,159** | 165,264 |
| **Total equity and liabilities** | | **432,601** | 393,520 | **253,874** | 275,787 |

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

# Consolidated Income Statement

Year ended 31 December 2012

| | Note | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| Interest income | 25 | **26,765** | 21,949 |
| Interest expense | 26 | **(7,161)** | (5,038) |
| **Net interest income** | | **19,604** | 16,911 |
| Gross written premiums | | **9,290** | 8,909 |
| Change in gross provision for unexpired risks | 11 | **666** | 284 |
| Gross earned premium revenue | | **9,956** | 9,193 |
| Written premiums ceded to reinsurers | | **(6,210)** | (5,940) |
| Reinsurers' share of change in the provision for unexpired risks | 11 | **35** | (411) |
| Reinsured premium expense | | **(6,175)** | (6,351) |
| **Net earned premium revenue** | 27 | **3,781** | 2,842 |
| Fee and commission income | 28 | **8,776** | 9,571 |
| Investment income | 29 | **3,364** | 1,609 |
| Other income | 30 | **324** | 614 |
| **Non-interest income** | | **12,464** | 11,794 |
| **Income before operating expenses** | | **35,849** | 31,547 |
| Business development expenses | | **(788)** | (912) |
| Commission expenses | | **(296)** | (317) |
| Staff costs | | **(12,860)** | (11,328) |
| General and administrative expenses | | **(7,057)** | (6,885) |
| **Operating expenses** | | **(21,001)** | (19,442) |
| Change in provision for insurance claims | | **517** | 2,036 |
| Reinsurers' share of change in provision for insurance claims | | **(256)** | (946) |
| Gross claims (paid)/recovered | 11 | **(115)** | 432 |
| Reinsurers' share of claims paid/(recovered) | 11 | **59** | (179) |
| **Net claims - reversal** | | **205** | 1,343 |
| **Operating profit before allowances** | | **15,053** | 13,448 |
| Allowances for loan losses and impairment of other assets | 31 | **(3,055)** | (4,617) |
| **Profit before income tax** | 32 | **11,998** | 8,831 |
| Tax expense | 33 | **(3,171)** | (1,128) |
| **Profit for the year** | | **8,827** | 7,703 |
| **Profit attributable to:** | | | |
| Owners of the Company | | **7,622** | 6,956 |
| Non-controlling interests | | **1,205** | 747 |
| **Profit for the year** | | **8,827** | 7,703 |
| **Earnings per share** | | | |
| Basic earnings per share (cents) | 34 | **5.1** | 4.6 |
| Diluted earnings per share (cents) | 34 | **5.1** | 4.6 |

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

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

| | Note | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|---|
| **Profit for the year** | | **8,827** | 7,703 |
| **Other comprehensive (loss)/income** | | | |
| Net change in fair value of available-for-sale financial assets | | **2,963** | (1,806) |
| Net change in fair value of available-for-sale financial assets reclassified to profit or loss | | **61** | (234) |
| Foreign currency translation differences of foreign operations | | **(3,029)** | (1,513) |
| Tax on other comprehensive income/(loss) | 33 | **(514)** | 346 |
| **Other comprehensive loss for the year, net of tax** | | **(519)** | (3,207) |
| **Total comprehensive income for the year** | | **8,308** | 4,496 |
| **Attributable to :** | | | |
| Owners of the Company | | **7,345** | 4,133 |
| Non-controlling interests | | **963** | 363 |
| **Total comprehensive income for the year** | | **8,308** | 4,496 |

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

# Consolidated Statement of Changes in Equity

Year ended 31 December 2012

| | Note | Share capital $'000 | Capital reserve $'000 | Fair value reserve $'000 | Translation reserve $'000 | Accumulated profits $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | | |
| **At 1 January 2012** | | 88,032 | (586) | (464) | (2,082) | 49,653 | 134,553 | 9,114 | 143,667 |
| **Total comprehensive income/(loss) for the year** | | | | | | | | | |
| Profit for the year | | - | - | - | - | 7,622 | 7,622 | 1,205 | 8,827 |
| **Other comprehensive income/(loss)** | | | | | | | | | |
| Foreign currency translation differences | | - | - | - | (2,787) | - | (2,787) | (242) | (3,029) |
| Net change in fair value of available-for-sale financial assets | | - | - | 2,963 | - | - | 2,963 | - | 2,963 |
| Net change in fair value of available-for-sale financial assets reclassified to profit or loss | | - | - | 61 | - | - | 61 | - | 61 |
| Tax on other comprehensive income | | - | - | (514) | - | - | (514) | - | (514) |
| **Total other comprehensive income/(loss)** | | - | - | 2,510 | (2,787) | - | (277) | (242) | (519) |
| **Total comprehensive income/(loss) for the year** | | - | - | 2,510 | (2,787) | 7,622 | 7,345 | 963 | 8,308 |
| **Transactions with owners, recognised directly in equity** | | | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | | | |
| Capitalisation of statutory legal reserves of a subsidiary | | - | 164 | - | - | (164) | - | - | - |
| Dividends to owners of the Company | 19 | - | - | - | - | (2,632) | (2,632) | - | (2,632) |
| **Total contributions by and distributions to owners** | | - | 164 | - | - | (2,796) | (2,632) | - | (2,632) |

# Consolidated Statement of Changes in Equity

Year ended 31 December 2012

| | Note | Share capital $'000 | Capital reserve $'000 | Fair value reserve $'000 | Translation reserve $'000 | Accumulated profits $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company (cont'd) | | | | | | | |
| **Changes in ownership interests in subsidiaries** | | | | | | | | | |
| Dividends paid by a subsidiary company to non-controlling interests | | - | - | - | - | - | - | (513) | (513) |
| **Total changes in ownership interests in subsidiaries** | | - | - | - | - | - | - | (513) | (513) |
| **Total transactions with owners** | | - | 164 | - | - | (2,796) | (2,632) | (513) | (3,145) |
| **At 31 December 2012** | | 88,032 | (422) | 2,046 | (4,869) | 54,479 | 139,266 | 9,564 | 148,830 |

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

# Consolidated Statement of Changes in Equity

Year ended 31 December 2012

| | Note | Share capital $'000 | Capital reserve $'000 | Fair value reserve $'000 | Translation reserve $'000 | Accumulated profits $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | | |
| **At 1 January 2011** | | 88,032 | (816) | 1,230 | (953) | 45,183 | 132,676 | 9,194 | 141,870 |
| **Total comprehensive (loss)/income for the year** | | | | | | | | | |
| Profit for the year | | - | - | - | - | 6,956 | 6,956 | 747 | 7,703 |
| **Other comprehensive (loss)** | | | | | | | | | |
| Foreign currency translation differences | | - | - | - | (1,129) | - | (1,129) | (384) | (1,513) |
| Net change in fair value of available-for-sale financial assets | | - | - | (1,806) | - | - | (1,806) | - | (1,806) |
| Net change in fair value of available-for-sale financial assets reclassified to profit or loss | | - | - | (234) | - | - | (234) | - | (234) |
| Tax on other comprehensive loss | | - | - | 346 | - | - | 346 | - | 346 |
| **Total other comprehensive loss** | | - | - | (1,694) | (1,129) | - | (2,823) | (384) | (3,207) |
| **Total comprehensive (loss)/income for the year** | | - | - | (1,694) | (1,129) | 6,956 | 4,133 | 363 | 4,496 |
| **Transactions with owners, recognised directly in equity** | | | | | | | | | |
| ***Contributions by and distributions to owners of the Company*** | | | | | | | | | |
| Capitalisation of statutory legal reserves of a subsidiary | | - | 230 | - | - | (230) | - | - | - |
| Dividends to owners of the Company | 19 | - | - | - | - | (2,256) | (2,256) | - | (2,256) |
| **Total contributions by and distributions to owners** | | - | 230 | - | - | (2,486) | (2,256) | - | (2,256) |

# Consolidated Statement of Changes in Equity

Year ended 31 December 2012

| | Note | Share capital $'000 | Capital reserve $'000 | Fair value reserve $'000 | Translation reserve $'000 | Accumulated profits $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company (cont'd) | | | | | | | |
| **Changes in ownership interests in subsidiaries** | | | | | | | | | |
| Dividends paid by a subsidiary company to non-controlling interests | | - | - | - | - | - | - | (443) | (443) |
| **Total changes in ownership interests in subsidiaries** | | - | - | - | - | - | - | (443) | (443) |
| **Total transactions with owners** | | - | 230 | - | - | (2,486) | (2,256) | (443) | (2,699) |
| **At 31 December 2011** | | 88,032 | (586) | (464) | (2,082) | 49,653 | 134,553 | 9,114 | 143,667 |

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

# Consolidated Statement of Cash Flows

Year ended 31 December 2012

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year | **8,827** | 7,703 |
| Adjustments for: | | |
| Amortisation of | | |
| - intangible assets | **954** | 1,025 |
| - held-to-maturity debt securities | **(55)** | (65) |
| Net foreign exchange (gain)/loss | **(102)** | 81 |
| Depreciation of property, plant and equipment | **1,049** | 1,137 |
| Gain on disposal of equity securities | **(1,738)** | (212) |
| Gain on disposal of property, plant and equipment | **(60)** | (27) |
| Net change in fair value of financial assets through profit or loss | **(47)** | 7 |
| Net change in fair value of derivatives | **-** | 938 |
| Property, plant and equipment written off | **-** | 1 |
| Allowance for impairment of | | |
| - investments | **279** | 372 |
| - intangible assests | **572** | - |
| (Reversals of)/provisions for, net of reinsurers' share | | |
| - unexpired risks | **(701)** | 127 |
| - insurance claims | **(261)** | (1,090) |
| Interest income | **(26,765)** | (21,949) |
| Interest income from investments and fixed deposits | **(1,364)** | (1,309) |
| Dividend income from investment | **(160)** | (30) |
| Interest expense | **7,161** | 5,038 |
| Tax expense | **3,171** | 1,128 |
| **Operating cashflows before changes in working capital** | **(9,240)** | (7,125) |
| | | |
| **Changes in working capital:** | | |
| Factoring receivables | **(19,265)** | (17,221) |
| Factoring amounts due to clients | **(1,463)** | (3,850) |
| Loans, advances, hire purchase and leasing receivables | **(8,899)** | (63,417) |
| Insurance and other receivables | **(2,582)** | (338) |
| Trade, other and insurance payables | **2,458** | 2,788 |
| **Cash used in operations** | **(38,991)** | (89,163) |
| Interest received | **28,181** | 23,356 |
| Interest paid | **(7,386)** | (5,007) |
| Taxes paid, net | **(2,638)** | (2,197) |
| Tax refund | **23** | 1,748 |
| **Net cash used in operating activities** | **(20,811)** | (71,263) |

# Consolidated Statement of Cash Flows (cont'd)

Year ended 31 December 2012

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Proceeds from sale of property, plant and equipment | **62** | 37 |
| Purchase of property, plant and equipment | **(459)** | (282) |
| Purchase of intangible assets | **(296)** | (130) |
| Purchase of investments | **(18,639)** | (26,742) |
| Proceeds from disposal of investments | **30,769** | 25,390 |
| Dividends received from investments and associate | **160** | 30 |
| **Net cash from/(used) in investing activities** | **11,597** | (1,697) |
| | | |
| **Cash flows from financing activities** | | |
| Dividends paid to owners of the company | **(2,632)** | (2,256) |
| Dividends paid to non-controlling interests | **(513)** | (443) |
| Proceeds from interest-bearing borrowings | **36,401** | 71,874 |
| **Net cash from financing activities** | **33,256** | 69,175 |
| **Net increase/(decrease) in cash and cash equivalents** | **24,042** | (3,785) |
| Cash and cash equivalents at beginning of year | **29,650** | 33,657 |
| Effect of exchange rate fluctuations on cash held | **(336)** | (222) |
| **Cash and cash equivalents at end of year (Note 16)** | **53,356** | 29,650 |

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

# Notes to the Financial Statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 8 March 2013.

## 1. Domicile and activities

IFS Capital Limited ("the Company") is a Company incorporated in the Republic of Singapore and has its registered office at 7 Temasek Boulevard #10-01, Suntec Tower One, Singapore 038987.

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

The principal activities of the Company are those relating to the provision of financial services in commercial finance, structured finance and alternative finance. The financing facilities include factoring, loans, mezzanine financing, non mainstream financing such as media financing and providing credit solutions to address either equity or debt capital requirements. The principal activities of the subsidiaries are detailed in Note 6 below.

## 2. Basis of preparation

### 2.1 Statement of compliance

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

The assets and liabilities of the Group which relate to the insurance business carried on in Singapore are subject to the requirements of the Insurance Act, Chapter 142 (Insurance Act). Such assets and liabilities are accounted for in the books of the insurance funds established under the Insurance Act. The net assets of the Group held in the insurance funds must be sufficient to meet the solvency requirements stipulated in Section 18 of the Insurance Act at all times. Assets held in the insurance funds may be withdrawn only if the withdrawal meets the requirements stipulated in Section 17 and the Group continues to be able to meet the solvency requirements of Section 18 of the Insurance Act.

### 2.2 Basis of measurement

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

### 2.3 Functional and presentation currency

These financial statements are presented in Singapore dollars, which is the Company's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

### 2.4 Use of estimates and judgements

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

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

## 2. Basis of preparation (cont'd)

### 2.4 Use of estimates and judgements (cont'd)

Information about critical judgements, assumptions and estimation uncertainties in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and may have a significant risk of resulting in a material adjustment are described in Note 38.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements, and have been applied consistently by the Group entities.

### 3.1 Basis of consolidation

*(i) Business combinations*

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

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

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

## 3. Significant accounting policies (cont'd)

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

*(i) Business combinations (cont'd)*

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

*(ii) Acquisition of non-controlling interests*

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

*(iii) Subsidiaries*

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

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

*(iv) Investments in associates*

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

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

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

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

*(v) Transactions eliminated on consolidation*

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

## 3. Significant accounting policies (cont'd)

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

*(vi) Subsidiaries and associates in the separate financial statements*

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

### 3.2 Affiliated companies

An affiliated company is a company, other than a related corporation, in which the directors and/or shareholders of the Group have substantial financial interests and may be able to exercise significant influence over the Group. All transactions with affiliated companies are therefore related party transactions carried out on terms agreed between the Group and such parties.

### 3.3 Foreign currencies

*Foreign currency transactions*

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

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

- available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss)
- a financial liability designated as a hedge of a net investment in a foreign operation to the extent that the hedge is effective or
- qualifying cash flow hedges to the extent that the hedge is effective.

*Foreign operations*

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

## 3. Significant accounting policies (cont'd)

### 3.3 Foreign currencies (cont'd)

*Foreign operations (cont'd)*

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

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

### 3.4 Financial instruments

*Non-derivative financial assets*

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

*Financial assets at fair value through profit or loss*

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

## 3. Significant accounting policies (cont'd)

### 3.4 Financial instruments (cont'd)

*Financial assets at fair value through profit or loss (cont'd)*

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

*Held-to-maturity financial assets*

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments that are not close to their maturity or occurs before the principal amounts are substantially recovered or not attributable to non-recurring isolated events beyond the Group's control and anticipation would result in the reclassification of all held-to-maturity investments as available-for-sale. It would also prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

*Loans and receivables*

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

Loans and receivables comprise cash and cash equivalents, insurance, trade and other receivables.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

*Available-for-sale financial assets*

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

Where the fair value cannot be measured reliably because the range of possible fair value estimates is wide and the probabilities of the various estimates within the range cannot be reasonably assessed, the investments is stated at cost less impairment losses.

Available-for-sale financial assets comprise equity securities and debt securities.

## 3. Significant accounting policies (cont'd)

### 3.4 Financial instruments (cont'd)

*Non-derivative financial liabilities*

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

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

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

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

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

Other financial liabilities comprise interest-bearing borrowings, bank overdrafts, insurance, trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

*Share capital*

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

*Derivative financial instruments*

The Group used derivative financial instruments to manage exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. These derivative financial instruments are only used for hedging an underlying risk. The Group does not take any speculative positions. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

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

## 3. Significant accounting policies (cont'd)

### 3.4 Financial instruments (cont'd)

*Separable embedded derivatives*

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

*Other non-trading derivatives*

When a financial instrument is not designated in hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

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

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

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

### 3.5 Property, plant and equipment

*Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

*Subsequent costs*

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

*Depreciation*

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

## 3. Significant accounting policies (cont'd)

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

*Depreciation (cont'd)*

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

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

| | |
|---|---|
| ▪ Leasehold land | 99 years |
| ▪ Leasehold building | 30 years |
| ▪ Freehold residential properties | 50 years |
| ▪ Freehold building | 40 years |
| ▪ Renovations | 4 years |
| ▪ Office equipment, furniture and fittings | 2 to 6 years |
| ▪ Computer equipment | 3 to 5 years |
| ▪ Motor vehicles | 5 years |

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

### 3.6 Intangible assets

*Goodwill*

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3.1(i).

*Subsequent measurement*

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

*Other intangible assets*

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

*Amortisation*

Amortisation is calculated based on the cost of the asset, less its residual value.

Amortisation is recognised in profit or loss on a straight-line and reducing balance basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

## 3. Significant accounting policies (cont'd)

### 3.6 Intangible assets (cont'd)

*Amortisation (cont'd)*

| | |
|---|---|
| ▪ Computer software | 3 to 5 years |
| ▪ Customer lists | 5 years |
| ▪ Copyrights | 5 years |

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

### 3.7 Leased assets

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

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

### 3.8 Impairment

*Non-derivative financial assets*

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, the economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20% to be significant and a period of 9 months to be prolonged.

*Loans and receivables and held-to-maturity investments securities*

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

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

## 3. Significant accounting policies (cont'd)

### 3.8 Impairment (cont'd)

*Loans and receivables and held-to-maturity investments securities (cont'd)*

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

*Available-for-sale financial assets*

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

*Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

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

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

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

## 3. Significant accounting policies (cont'd)

### 3.8 Impairment (cont'd)

*Non-financial assets*

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

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

### 3.9 Classification of insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant additional benefits. Once a contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

*Credit insurance and political risk insurance*

The Group provides credit insurance against non-payment risks arising from commercial and political events. Commercial events may be due to protracted default in payments or insolvency of the buyer. Political events are defined as external factors beyond the control of both the policyholder and the buyer that lead to the buyer not being able to make payments to the policyholders. Political events are for example the occurrence of war or other disturbances in the buyer's country affecting the settlement of debt, transfer payment delays due to the imposition of foreign exchange controls, or the cancellation or imposition of import licence in the buyer's country.

The Group issues short-term comprehensive contracts where the period of coverage is usually a year or less. These policies are typically purchased by exporters who are based mainly in Singapore. The Group also issues specific policies for medium and long term credit period.

*Bond and guarantee insurance contracts*

Risks covered under the guarantee business are related to the client's performance capabilities to meet the requirements of projects or contracts, for which the Group issues bonds and guarantees on behalf of the clients.

The major classes of bonds and guarantees issued include Performance Bond, Advance Payment Bond, Contract Tender Bond/ Bid Bond, Qualifying Certificate Bond, Customs Bond, Foreign Worker Bond, Tenancy/Rental Bond and Account Payment Bond.

## 3. Significant accounting policies (cont'd)

### 3.9 Classification of insurance contracts (cont'd)

*Maid insurance*

The Group provides coverage for domestic maids against personal accidents, hospitalisation and surgical expenses and issuance of security bond to Ministry of Manpower of Singapore.

### 3.10 Recognition and measurement of insurance contracts

*Premiums and provision for unexpired risk*

Gross written premiums are disclosed gross of commission payable to intermediaries (brokers) and exclude taxes and levies based on premiums. Premiums written do not include an estimate for pipeline premiums.

For short-term comprehensive credit insurance contracts, premiums are recognised when sales declarations are received. A minimum premium is received from the policyholder upfront at the commencement of the cover. This minimum premium is determined using premium rates which are adjusted according to the level of credit risk exposure to buyers. The minimum premium is not recognised as revenue but as a liability. Upon declaration of sales to buyers by the policyholder, the Group will recognise the revenue by reversing the minimum premium from the liability account.

For bonds and guarantees and maid insurance contracts, premiums are recognised upon inception of risk.

The provision for unexpired risks includes unearned premiums calculated at a flat rate of 25% on the net written premiums for short-term credit insurance policies, and on a daily pro rata basis over the policy period for maid insurance and bonds and guarantees insurance policies. An additional provision for unexpired risks is made where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums in relation to such policies. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together.

*Fees and other charges to policyholders*

Administration fees are charged to policyholders for the cost of processing and issuing bonds and guarantees. These are recognised in profit or loss immediately.

*Claims incurred and provision for insurance claims*

Claims incurred comprise claims paid during the financial year, net of subrogation recoveries, and changes in the provision for outstanding claims.

Provision for insurance claims comprises provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and a provision for adverse deviation ("PAD"). Provision for insurance claims is assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Provision for insurance claims is discounted where there is a particularly long period from incident to claims settlement and where there exists a suitable claims pattern from which to calculate the discount.

## 3. Significant accounting policies (cont'd)

### 3.10 Recognition and measurement of insurance contracts (cont'd)

*Claims incurred and provision for insurance claims (cont'd)*

Whilst management considers that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed annually.

*Reinsurance*

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net losses. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Reinsurance premium expense, reinsurers' share of claims incurred and reinsurance commission income are presented in profit or loss and statement of financial position on a gross basis.

Reinsurance assets comprise reinsurers' share of insurance contract provisions and balances due from reinsurance companies. The amounts recognised as reinsurers' share of insurance contract provisions are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts. Balances due from reinsurance companies in respect of claims paid are included within insurance receivables on the statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

*Commission expense*

Commission expenses are fees paid to intermediaries (brokers) upon acquiring new and renewal of insurance business.

For short-term comprehensive credit insurance contracts, maid insurance and bonds and guarantees, commission expenses are not amortised on a pro rata basis over the period of the contracts.

For credit insurance contracts under which advance premium is received upfront but only earned upon achieving the pre-set minimum insured volume, the upfront commission expense paid is deferred and amortised on a pro rata basis over the period of the contracts.

*Commission income*

Commission income comprises reinsurance and profit commissions received or receivable which do not require the Group to render further service. Commission income is not deferred and amortised on a pro rata basis over the period of the contracts but are recognised in full on the effective commencement or renewal dates of the policies.

*Claim recoveries*

Claim recoveries represent actual subrogation recoveries received from policyholders during the year.

## 3. Significant accounting policies (cont'd)

### 3.10 Recognition and measurement of insurance contracts (cont'd)

*Liability adequacy test*

The liability of the Group under insurance contracts is tested for adequacy by comparing the expected future contractual cash flows with the carrying amount of the insurance contract provisions for gross unexpired risks and gross insurance claims. Where an expected shortfall is identified, additional provisions are made for unexpired risks or insurance claims and the deficiency is recognised in profit or loss.

### 3.11 Lease payments

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

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

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

*Determining whether an arrangement contains a lease*

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of that specified asset or assets; and
- the arrangement contains the right to use the asset(s).

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

### 3.12 Employee benefits

*Defined contributions plans*

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

## 3. Significant accounting policies (cont'd)

### 3.12 Employee benefits (cont'd)

*Defined benefit plans*

The liability in respect of employee benefits is calculated using the actuarial technique. The present value of the defined benefits obligation is determined by discounting estimated future cash flows using yields on the government bonds which have terms to maturity approximating the terms of related liability. The estimated future cash flows shall reflect employee salaries, turnover rate, length of service and others. Actuarial gains or losses will be recognised in profit or loss in the period to which they are related. The costs associated with providing these benefits are charged to profit or loss so as to spread the cost over the employment period during which the entitlement is earned.

*Short-term benefits*

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

### 3.13 Government grants

Cash grants received from the government in relation to the SME Cash Grant are recognised in profit or loss upon receipt.

### 3.14 Provisions

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

### 3.15 Revenue recognition

*Interest income*

Interest income on loans, advances, hire purchase, leasing receivables and factoring accounts is recognised on the accrual basis, taking into account the effective yield of the assets.

*Fee and commission income*

Fee and commission income are recognised in profit or loss on an accrual basis.

*Management fees*

Management fees are recognised on an accrual basis.

*Insurance contracts*

Revenue recognition from insurance contracts is explained in note 3.10.

## 3. Significant accounting policies (cont'd)

### 3.15 Revenue recognition (cont'd)

*Interest expense*

Interest expense is recognised in profit or loss at amortised cost using the effective interest rate method.

*Interest income from debt securities and bank deposits*

Interest income from debt securities and bank deposits are recognised in profit or loss at amortised cost using the effective interest rate method.

*Dividend income*

Dividend income is recognised in profit or loss on the date that the Group's right to receive income is established, which in the case of quoted securities is the ex-dividend date.

### 3.16 Dividends

Dividends payable on the issued ordinary shares are recognised as a liability in the financial year in which they are declared.

### 3.17 Tax

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

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

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

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

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

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

## 3. Significant accounting policies (cont'd)

### 3.17 Tax (cont'd)

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

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

### 3.18 Deposits relating to collateral of clients

Deposits relating to collateral of the Group's insurance subsidiary's clients are held in a fiduciary capacity on behalf of the Group's clients and are excluded from the financial statements.

### 3.19 Earnings per share

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

### 3.20 Segment reporting

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

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly tax assets and liabilities and other assets.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

### 3.21 New standards and interpretations not adopted

A number of new standards, amendments to the standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group and the Company. Those standards, amendments to the standards and interpretations that are relevant for the Group's accounting periods beginning on or after 1 January 2012 or later periods and which the Group has not early adopted are listed below:

## 3. Significant accounting policies (cont'd)

### 3.21 New standards and interpretations not adopted (cont'd)

*Applicable for the Group's 2013 financial statements*

- FRS 19 *Employee Benefits (revised 2011)*, which revises certain principles of the current FRS 19, including the elimination of the option to defer recognition of re-measurement gains and losses for defined benefit plans and requiring these re-measurements to be presented in other comprehensive income. The standard also requires a re-measurement of the basis used for determining the income or expenses related to defined benefit plans. In addition, there are changes to the definition of employee benefits as short-term or other long-term employee benefits.

  A foreign subsidiary of the Group provides for severance pay under the Thai Labor Protection Act and long service awards to the employees. Presently, the employee benefits are recognised in the statement of financial position as long term benefits and calculated by using the actuarial techniques. Upon adoption of this standard, there will be no significant impact on the financial statements.

- FRS 113 *Fair Value Measurement,* which replaces the existing guidance on fair value measurement in different FRSs with a single definition of fair value. The standard also establishes a framework for measuring fair values and sets out the disclosure requirements for fair value measurements.

  The adoption of the standard will require the Group to re-assess the bases used for determining the fair value computed for both measurement and disclosure purposes and would result in more extensive disclosures on fair value measurements. On initial application of the standard, the Group does not expect substantial changes to the basis used for determining fair values.

*Applicable for the Group's 2014 financial statements*

- FRS 110 *Consolidated Financial Statements,* which changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power with the investee. FRS 110 introduces a single control model with a series of indicators to assess control. FRS 110 also adds additional context, explanation and application guidance based on the principle of control.

  The Group has evaluated its involvement with investees under the new control model. Based on its assessment, the Group has concluded that there is no impact since the Group's involvement in subsidiaries are either wholly owned or with majority voting rights.

- FRS 112 *Disclosure of Interests in Other Entities,* which sets out the disclosures required to be made in respect of all forms of an entity's interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of this standard would result in more extensive disclosures being made in the Group's financial statements in respect of its interests in other entities; as FRS 112 is primarily a disclosure standard, there will be no financial impact on the results and financial position of the Group and the Company.

- Amendments to FRS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities,* which clarifies the existing criteria for net presentation on the face of the statement of financial position.

  Under the amendments, to qualify for offsetting, the right to set off a financial asset and a financial liability must not be contingent on a future event and must be enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and counterparties.

  The Group has yet to assess the impact of the FRS 32 and intends to adopt the standard from 1 January 2014.

## 4. Property, plant and equipment

| | Leasehold land $'000 | Leasehold building $'000 | Freehold residential properties $'000 | Freehold land & building $'000 | Renovations $'000 | Office equipment, furniture and fittings $'000 | Computer equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | |
| **Cost** | | | | | | | | | |
| **At 1 January 2012** | 12,822 | 10,510 | 183 | 2,477 | 766 | 2,284 | 1,788 | 598 | 31,428 |
| Additions | - | - | - | - | 16 | 57 | 157 | 229 | 459 |
| Disposals | - | - | - | - | (3) | (4) | (26) | (163) | (196) |
| Write-off | - | - | - | - | - | (13) | (11) | - | (24) |
| Effect of movements in exchange rates | - | - | - | (45) | (2) | (71) | (31) | (34) | (183) |
| **At 31 December 2012** | 12,822 | 10,510 | 183 | 2,432 | 777 | 2,253 | 1,877 | 630 | 31,484 |
| | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | |
| **At 1 January 2012** | 2,168 | 4,753 | 97 | 773 | 718 | 1,848 | 1,482 | 363 | 12,202 |
| Depreciation for the year | 140 | 397 | 4 | 70 | 19 | 155 | 168 | 96 | 1,049 |
| Disposals | - | - | - | - | (2) | (2) | (24) | (162) | (190) |
| Write-off | - | - | - | - | - | (13) | (11) | - | (24) |
| Effect of movements in exchange rates | - | - | - | (18) | (1) | (60) | (28) | (18) | (125) |
| **At 31 December 2012** | 2,308 | 5,150 | 101 | 825 | 734 | 1,928 | 1,587 | 279 | 12,912 |
| **Carrying amounts** | 10,514 | 5,360 | 82 | 1,607 | 43 | 325 | 290 | 351 | 18,572 |

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

| | Leasehold land $'000 | Leasehold building $'000 | Freehold residential properties $'000 | Freehold land & building $'000 | Renovations $'000 | Office equipment, furniture and fittings $'000 | Computer equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | |
| **Cost** | | | | | | | | | |
| At 1 January 2011 | 12,822 | 10,510 | 183 | 2,551 | 766 | 2,289 | 1,804 | 548 | 31,473 |
| Additions | - | - | - | - | 1 | 63 | 88 | 130 | 282 |
| Disposals | - | - | - | - | - | - | (28) | (67) | (95) |
| Write-off | - | - | - | - | - | (29) | (43) | - | (72) |
| Effect of movements in exchange rates | - | - | - | (74) | (1) | (39) | (33) | (13) | (160) |
| At 31 December 2011 | 12,822 | 10,510 | 183 | 2,477 | 766 | 2,284 | 1,788 | 598 | 31,428 |
| **Accumulated depreciation** | | | | | | | | | |
| At 1 January 2011 | 2,028 | 4,356 | 93 | 731 | 676 | 1,708 | 1,383 | 331 | 11,306 |
| Depreciation for the year | 140 | 397 | 4 | 70 | 42 | 191 | 194 | 99 | 1,137 |
| Disposals | - | - | - | - | - | - | (28) | (57) | (85) |
| Write-off | - | - | - | - | - | (29) | (42) | - | (71) |
| Effect of movements in exchange rates | - | - | - | (28) | - | (22) | (25) | (10) | (85) |
| At 31 December 2011 | 2,168 | 4,753 | 97 | 773 | 718 | 1,848 | 1,482 | 363 | 12,202 |
| **Carrying amounts** | 10,654 | 5,757 | 86 | 1,704 | 48 | 436 | 306 | 235 | 19,226 |

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

| | Leasehold land $'000 | Leasehold building $'000 | Freehold residential properties $'000 | Renovations $'000 | Office equipment, furniture and fittings $'000 | Computer equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | | |
| **Cost** | | | | | | | | |
| **At 1 January 2012** | 12,822 | 10,510 | 183 | 611 | 1,034 | 556 | 10 | 25,726 |
| Additions | - | - | - | 8 | 44 | 109 | 17 | 178 |
| Disposals | - | - | - | - | - | (25) | (10) | (35) |
| Write-off | - | - | - | - | (13) | (11) | - | (24) |
| **At 31 December 2012** | 12,822 | 10,510 | 183 | 619 | 1,065 | 629 | 17 | 25,845 |
| **Accumulated depreciation** | | | | | | | | |
| **At 1 January 2012** | 2,168 | 4,753 | 97 | 610 | 992 | 441 | 10 | 9,071 |
| Depreciation for the year | 140 | 397 | 4 | 1 | 28 | 59 | 1 | 630 |
| Disposals | - | - | - | - | - | (24) | (10) | (34) |
| Write-off | - | - | - | - | (13) | (11) | - | (24) |
| **At 31 December 2012** | 2,308 | 5,150 | 101 | 611 | 1,007 | 465 | 1 | 9,643 |
| **Carrying amounts** | 10,514 | 5,360 | 82 | 8 | 58 | 164 | 16 | 16,202 |

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

| | Leasehold land $'000 | Leasehold building $'000 | Freehold residential properties $'000 | Renovations $'000 | Office equipment, furniture and fittings $'000 | Computer equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 January 2011 | 12,822 | 10,510 | 183 | 611 | 1,041 | 565 | 10 | 25,742 |
| Additions | - | - | - | - | 22 | 46 | - | 68 |
| Disposals | - | - | - | - | (29) | (12) | - | (41) |
| Write-off | - | - | - | - | - | (43) | - | (43) |
| At 31 December 2011 | 12,822 | 10,510 | 183 | 611 | 1,034 | 556 | 10 | 25,726 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2011 | 2,028 | 4,356 | 93 | 589 | 964 | 428 | 10 | 8,468 |
| Depreciation for the year | 140 | 397 | 4 | 21 | 57 | 67 | - | 686 |
| Disposals | - | - | - | - | - | (12) | - | (12) |
| Write-off | - | - | - | - | (29) | (42) | - | (71) |
| At 31 December 2011 | 2,168 | 4,753 | 97 | 610 | 992 | 441 | 10 | 9,071 |
| **Carrying amounts** | 10,654 | 5,757 | 86 | 1 | 42 | 115 | - | 16,655 |

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

The Group and Company's properties consist of the following:

| Location | Title | Description of properties |
|---|---|---|
| 7 Temasek Boulevard #10-01 Singapore 038987 | Leasehold (99 years from 1995) | Offices |
| #14-06 Seaview Tower, Ocean Palms Klebang Besar, Malacca, Malaysia | Freehold | Residential apartment |
| #20-00 Lumpini Tower, 1168/55 Rama IV Road, Thungmahamek, Sathorn, Bangkok, Thailand | Freehold | Offices |

## 5. Intangible assets

| | Computer software $'000 | Customer lists $'000 | Membership rights $'000 | Copyrights $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Cost** | | | | | |
| **At 1 January 2012** | 2,970 | 1,131 | 22 | 1,180 | 5,303 |
| Additions | 296 | - | - | - | 296 |
| Disposals | (2) | - | - | - | (2) |
| Write-off | (154) | - | - | - | (154) |
| Effect of movements in exchange rates | (23) | - | - | - | (23) |
| **At 31 December 2012** | 3,087 | 1,131 | 22 | 1,180 | 5,420 |
| | | | | | |
| **Accumulated amortisation** | | | | | |
| **At 1 January 2012** | 2,512 | 622 | - | 257 | 3,391 |
| Amortisation charge for the year | 360 | 226 | - | 368 | 954 |
| Disposals | (2) | - | - | - | (2) |
| Impairment loss | - | - | 17 | 555 | 572 |
| Write-off | (154) | - | - | - | (154) |
| Effect of movements in exchange rates | (21) | - | - | - | (21) |
| **At 31 December 2012** | 2,695 | 848 | 17 | 1,180 | 4,740 |
| **Carrying amounts** | 392 | 283 | 5 | - | 680 |

During the financial year, the Group recognised an impairment charge of $572,000 (2011: nil) in the income statement. The recoverable value of the copyright was determined based on fair value less cost to sell. The fair value was computed by applying appropriate earnings multiples to the latest available financial forecasts.

# Notes to the Financial Statements

## 5. Intangible assets (cont'd)

| | Computer software $'000 | Customer lists $'000 | Membership rights $'000 | Copyrights $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Cost** | | | | | |
| At 1 January 2011 | 5,732 | 1,131 | 23 | 1,310 | 8,196 |
| Additions | 130 | - | - | - | 130 |
| Disposals | - | - | - | - | - |
| Write-off | (2,879) | - | - | - | (2,879) |
| Effect of movements in exchange rates | (13) | - | (1) | (130) | (144) |
| At 31 December 2011 | 2,970 | 1,131 | 22 | 1,180 | 5,303 |
| **Accumulated amortisation** | | | | | |
| At 1 January 2011 | 4,857 | 396 | - | - | 5,253 |
| Amortisation charge for the year | 542 | 226 | - | 257 | 1,025 |
| Disposals | - | - | - | - | - |
| Write-off | (2,878) | - | - | - | (2,878) |
| Effect of movements in exchange rates | (9) | - | - | - | (9) |
| At 31 December 2011 | 2,512 | 622 | - | 257 | 3,391 |
| **Carrying amounts** | 458 | 509 | 22 | 923 | 1,912 |
| **Company** | | | | | |
| **Cost** | | | | | |
| **At 1 January 2012** | **1,422** | **-** | **-** | **-** | **1,422** |
| Additions | **178** | **-** | **-** | **-** | **178** |
| Write-off | **(154)** | **-** | **-** | **-** | **(154)** |
| **At 31 December 2012** | **1,446** | **-** | **-** | **-** | **1,446** |
| **Accumulated amortisation** | | | | | |
| **At 1 January 2012** | **1,111** | **-** | **-** | **-** | **1,111** |
| Additions | **239** | **-** | **-** | **-** | **239** |
| Write-off | **(154)** | **-** | **-** | **-** | **(154)** |
| **At 31 December 2012** | **1,196** | **-** | **-** | **-** | **1,196** |
| **Carrying amounts** | **250** | **-** | **-** | **-** | **250** |

## 5. Intangible assets (cont'd)

| | Computer software $'000 | Total $'000 |
|---|---|---|
| **Cost** | | |
| At 1 January 2011 | 4,226 | 4,226 |
| Additions | 74 | 74 |
| Write-off | (2,878) | (2,878) |
| At 31 December 2011 | 1,422 | 1,422 |
| | | |
| **Accumulated amortisation** | | |
| At 1 January 2011 | 3,763 | 3,763 |
| Amortisation charge for the year | 226 | 226 |
| Write-off | (2,878) | (2,878) |
| At 31 December 2011 | 1,111 | 1,111 |
| **Carrying amounts** | 311 | 311 |

The amortisation charge for the year is included in "General and administrative expenses" in the consolidated income statement.

## 6. Subsidiaries

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| Quoted ordinary shares, at cost | **-** | - | **7,898** | 7,898 |
| Unquoted ordinary shares, at cost | **-** | - | **55,781** | 67,781 |
| | **-** | - | **63,679** | 75,679 |

## 6. Subsidiaries (cont'd)

Details of the subsidiaries are as follows:

| **Company name** | **Country of incorporation** | **Proportion of ownership interest at beginning and end of the year** | | |
|---|---|---|---|---|
| **Direct and indirect subsidiaries** | | **Group's effective interest %** | **Held by Company %** | **Held by Subsidiary %** |
| (a) IFS Capital Assets Private Limited | Singapore | 100 | 100 | - |
| IFS Ventures Private Limited | Singapore | 100 | - | 100 |
| IFS Ventures 2 Limited | Singapore | 100 | 25 | 75 |
| IFS Capital Intellectual Property Private Limited | Singapore | 100 | - | 100 |
| (b) ECICS Limited | Singapore | 100 | 100 | - |
| (c) IFS Capital (Malaysia) Sdn. Bhd. | Malaysia | 70+ | 70+ | - |
| IFS Factors (Malaysia) Sdn. Bhd. | Malaysia | 30+ | - | 30+* |
| (d) PT. IFS Capital Indonesia | Indonesia | 85 | 85 | - |
| (e) IFS Capital (Hong Kong) Limited | Hong Kong | 100 | 100 | - |
| (f) IFS Capital Holdings (Thailand) Limited | Thailand | 100 | 100 | - |
| (g) IFS Capital (Thailand) Public Company Limited | Thailand | 73.1 | 36.5 | 36.6 |

\+ Consolidation is prepared based on 100% beneficial interest.

* Although the Group owns less than half of the voting power of IFS Factors (Malaysia) Sdn. Bhd. ("IFS Factors"), it is able to govern the financial and operating policies of the company by virtue of an agreement with the other investors of IFS Factors. Consequently, the Group consolidates the results of IFS Factors.

## 6. Subsidiaries (cont'd)

The principal activities of the subsidiaries are as follows:

| | Name of subsidiaries | Principal activities |
|---|---|---|
| [1] | IFS Capital Assets Private Limited | Working capital, asset-based financing, venture capital investments and private equity investments |
| [1] | IFS Ventures 2 Limited | Venture capital investments |
| [1] | IFS Ventures Private Limited | Venture capital investments |
| [1] | IFS Capital Intellectual Property Private Limited | Investment holding |
| [1] | ECICS Limited | Direct general insurer, guarantee, bond and underwriting business |
| [2] | IFS Capital (Malaysia) Sdn. Bhd. | Hire purchase financing, business debt factoring and provision of other related services |
| [2] | IFS Factors (Malaysia) Sdn. Bhd. | Hire purchase financing, business debt factoring, provision of other related services, focusing on government related projects |
| [2] | PT. IFS Capital Indonesia | Factoring of onshore and offshore short-term trade receivables, direct financing, operating leases and consumer financing |
| [3] | IFS Capital (Hong Kong) Limited | Dormant |
| [4] | IFS Capital Holdings (Thailand) Limited | Investment holding |
| [4] | IFS Capital (Thailand) Public Company Limited | Factoring, hire purchase and leasing businesses |

[1] Audited by KPMG LLP Singapore

[2] Audited by other member firms of KPMG International

[3] Audited by Peter W.H. Ma & Co., Hong Kong

[4] Audited by Deloitte Touche Tohmatsu Jaiyos Co., Ltd, Thailand

On 2 August 2012, IFS Capital Assets Private Limited carried out a capital reduction exercise by the cancellation of 12 million ordinary shares. Arising from the capital reduction exercise, a total of $12 million was distributed to the shareholders of the subsidiary company. The exercise resulted in the reduction of share capital of the subsidiary company by $12 million.

## 6. Subsidiaries (cont'd)

KPMG LLP Singapore is the auditor of all Singapore-incorporated subsidiaries. Other member firms of KPMG International are auditors of significant foreign-incorporated subsidiaries except for IFS Capital (Thailand) Public Company Limited which is audited by Deloitte Touche Tohmatsu Jaiyos Co., Ltd., Thailand. For this purpose, a subsidiary is considered significant as defined under the Singapore Exchange Limited Listing Manual if its net tangible assets represent 20% or more of the Group's consolidated net tangible assets, or if its pre-tax profits account for 20% or more of the Group's consolidated pre-tax profits.

The Company complies with SGX-ST listing rule 716 as the Board and Audit Committee are satisfied that the appointment of different auditors for its listed significant Thailand-incorporated subsidiary would not compromise the standard and effectiveness of the Company's audit.

## 7. Other investments

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| **Non-current investments** | | | | | |
| Held-to-maturity financial assets | | | | | |
| - Debt securities | (a) | **9,250** | 19,974 | **-** | 1,497 |
| Available-for-sale financial assets | | | | | |
| - Unquoted debt securities | (b) | **984** | 1,836 | **-** | - |
| - Quoted and unquoted equity securities | | **14,178** | 15,916 | **7,774** | 8,305 |
| - Convertible loan | (c) | **7,423** | - | **7,423** | - |
| Loans and receivables | (d) | **-** | 3,000 | **-** | - |
| | | **31,835** | 40,726 | **15,197** | 9,802 |
| Allowance for impairment loss | | **(6,657)** | (7,433) | **(2,168)** | (3,223) |
| | | **25,178** | 33,293 | **13,029** | 6,579 |
| **Current investments** | | | | | |
| Held-to-maturity financial assets | | | | | |
| - Debt securities | (a) | **17,996** | 16,191 | **1,499** | - |
| Held-for-trading financial assets | | | | | |
| - Equity securities | | **17** | 3 | **-** | - |
| Loans and receivables | (d) | **2,000** | 3,248 | **-** | - |
| | | **20,013** | 19,442 | **1,499** | - |
| Total | | **45,191** | 52,735 | **14,528** | 6,579 |

## 7. Other investments (cont'd)

(a) Held-to-maturity debt securities have interest rates of 1.7% to 5.0% (2011: 1.45% to 4.50%) per annum and mature in 1 to 5 years.

(b) Available-for-sale unquoted debt securities have an interest rate of 3.47% (2011: 3.47% to 5.65%) per annum and mature in 1 to 2 years.

(c) The convertible loan contains an embedded equity conversion option. It is non-interest bearing and is expected to convert or mature in 2016.

(d) Loans and receivables comprise variable rate notes bearing an interest rate of 1.26% (2011: 1.05% to 1.55%) per annum.

The maximum credit exposure to credit risk of the investments at the reporting date is the carrying amount.

The movements in allowance for impairment of investments during the year are as follows:

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| At 1 January | | **7,433** | 11,247 | **3,223** | 2,851 |
| Allowance made during the year (net) | 31 | **279** | 372 | **-** | 372 |
| Allowance utilised during the year | | **(1,055)** | (4,186) | **(1,055)** | - |
| At 31 December | | **6,657** | 7,433 | **2,168** | 3,223 |

The weighted average effective interest rates per annum of debt securities at the reporting date and the periods in which they mature are as follows:

Effective interest rates and repricing analysis:

| | Weighted average effective interest rate % | Fixed interest rate maturing within 1 year $'000 | Fixed interest rate maturing in 1 to 5 years $'000 | Total $'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2012** | | | | |
| Held-to-maturity debt securities | **3.41** | **17,996** | **9,250** | **27,246** |
| Available-for-sale debt securities | **3.47** | **-** | **984** | **984** |
| Variable rate notes | **1.26** | **2,000** | **-** | **2,000** |
| | | **19,996** | **10,234** | **30,230** |
| **2011** | | | | |
| Held-to-maturity debt securities | 3.05 | 16,191 | 19,974 | 36,165 |
| Available-for-sale debt securities | 4.56 | - | 1,836 | 1,836 |
| Variable rate notes | 1.06 | - | 3,000 | 3,000 |
| Certificate of deposit | 1.26 | 3,248 | - | 3,248 |
| | | 19,439 | 24,810 | 44,249 |

# Notes to the Financial Statements

## 7. Other investments (cont'd)

| | Weighted average effective interest rate % | Fixed interest rate maturing within 1 year $'000 | in 1 to 5 years $'000 | Total $'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **2012** | | | | |
| Held-to-maturity debt securities | **4.50** | **1,499** | **-** | **1,499** |
| **2011** | | | | |
| Held-to-maturity debt securities | 4.50 | - | 1,497 | 1,497 |

## 8. Loans, advances, hire purchase and leasing receivables

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| Hire purchase and leasing receivables | 9 | **50,469** | 41,674 | **4,145** | 6,863 |
| Less: Deposits on leasing receivables | | **(8,210)** | (5,218) | **-** | - |
| | | **42,259** | 36,456 | **4,145** | 6,863 |
| Loans and advances | | **131,154** | 129,235 | **115,375** | 110,733 |
| | | **173,413** | 165,691 | **119,520** | 117,596 |
| Allowance for impairment of doubtful receivables | | | | | |
| - hire purchase receivables | | **(943)** | (1,218) | **(181)** | (315) |
| - leasing receivables | | **(491)** | (580) | **-** | - |
| - loans and advances | | **(8,181)** | (6,869) | **(5,673)** | (4,446) |
| | | **(9,615)** | (8,667) | **(5,854)** | (4,761) |
| | 37 | **163,798** | 157,024 | **113,666** | 112,835 |
| Due within 12 months | 13 | **85,002** | 92,776 | **59,150** | 68,537 |
| Due after 12 months | | **78,796** | 64,248 | **54,516** | 44,298 |
| | | **163,798** | 157,024 | **113,666** | 112,835 |

The movements in allowance for impairment of loans, advances, hire purchase and leasing receivables during the year are as follows:

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| At 1 January | | **8,667** | 6,400 | **4,761** | 4,834 |
| Translation adjustment | | **(73)** | (24) | **-** | - |
| Allowance made during the year (net) | 31 | **1,268** | 4,035 | **1,260** | 1,671 |
| Allowance utilised during the year | | **(247)** | (1,744) | **(167)** | (1,744) |
| At 31 December | | **9,615** | 8,667 | **5,854** | 4,761 |

## 8. Loans, advances, hire purchase and leasing receivables (cont'd)

Effective interest rates and repricing analysis:

| | Weighted average effective interest rate % | Floating rate $'000 | Fixed interest rate maturing within 1 year $'000 | Fixed interest rate maturing in 1 to 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2012** | | | | | |
| Loans, advances, hire purchase and leasing receivables | | | | | |
| - fixed rate | **11.8** | **-** | **13,489** | **12,213** | **25,702** |
| - variable rate | **7.7** | **138,096** | **-** | **-** | **138,096** |
| | | **138,096** | **13,489** | **12,213** | **163,798** |
| **2011** | | | | | |
| Loans, advances, hire purchase and leasing receivables | | | | | |
| - fixed rate | 11.0 | - | 17,857 | 13,649 | 31,506 |
| - variable rate | 8.8 | 125,518 | - | - | 125,518 |
| | | 125,518 | 17,857 | 13,649 | 157,024 |
| **Company** | | | | | |
| **2012** | | | | | |
| Loans, advances, hire purchase and leasing receivables | | | | | |
| - fixed rate | **4.2** | **-** | **3,893** | **680** | **4,573** |
| - variable rate | **7.0** | **109,093** | **-** | **-** | **109,093** |
| | | **109,093** | **3,893** | **680** | **113,666** |
| **2011** | | | | | |
| Loans, advances, hire purchase and leasing receivables | | | | | |
| - fixed rate | 7.4 | - | 7,177 | 2,579 | 9,756 |
| - variable rate | 8.6 | 103,079 | - | - | 103,079 |
| | | 103,079 | 7,177 | 2,579 | 112,835 |

Variable rate loans and advances are repriced at intervals of three or six months.

The above loans, advances, hire purchase and leasing receivables are reflected net of allowance for impairment of doubtful receivables.

## 9. Hire purchase and leasing receivables

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| Gross receivables | | **56,568** | 46,640 | **4,145** | 6,863 |
| Unearned income | | **(6,099)** | (4,966) | **-** | - |
| | 8 | **50,469** | 41,674 | **4,145** | 6,863 |
| Within 1 year | | **19,146** | 16,386 | **2,819** | 4,140 |
| After 1 year but within 5 years | | **31,323** | 25,288 | **1,326** | 2,723 |
| | | **50,469** | 41,674 | **4,145** | 6,863 |

## 10. Deferred tax assets and liabilities

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

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets 2012 $'000 | Assets 2011 $'000 | Liabilities 2012 $'000 | Liabilities 2011 $'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Loans, advances, hire purchase and leasing receivables | **(751)** | (980) | **-** | - |
| Factoring receivables | **(729)** | (738) | **-** | - |
| Other investments | **(200)** | (103) | **-** | - |
| Others | **(1,106)** | (1,209) | **-** | - |
| Property, plant and equipment | **-** | - | **138** | 143 |
| Trade and other receivables | **-** | - | **-** | 1 |
| Trade and other payables | **-** | - | **4** | 4 |
| Dividend not remitted to Singapore | **-** | - | **114** | 114 |
| Other investments | **-** | - | **619** | 8 |
| Deferred tax (assets)/liabilities | **(2,786)** | (3,030) | **875** | 270 |
| Set off of tax | **220** | 238 | **(220)** | (238) |
| **Net deferred tax (assets)/liabilities** | **(2,566)** | (2,792) | **655** | 32 |
| **Company** | | | | |
| Loans, advances, hire purchase and leasing receivables | **(46)** | (94) | **-** | - |
| Factoring receivables | **(4)** | (4) | **-** | - |
| Other investments | **-** | (4) | **602** | - |
| Property, plant and equipment | **-** | - | **75** | 77 |
| Deferred tax (assets)/liabilities | **(50)** | (102) | **677** | 77 |
| Set off of tax | **50** | 77 | **(50)** | (77) |
| **Net deferred tax (assets)/liabilities** | **-** | (25) | **627** | - |

## 10. Deferred tax assets and liabilities (cont'd)

Movements in temporary differences during the year are as follows:

| | At 1/1/2012 $'000 | Recognised in income statement (Note 33) $'000 | Recognised in other comprehensive income $'000 | Exchange differences $'000 | At 31/12/2012 $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | **143** | **(4)** | **-** | **(1)** | **138** |
| Trade and other receivables | **1** | **-** | **-** | **(1)** | **-** |
| Trade and other payables | **4** | **-** | **-** | **-** | **4** |
| Dividend not remitted to Singapore | **114** | **-** | **-** | **-** | **114** |
| Other investments | **8** | **-** | **611** | **-** | **619** |
| | **270** | **(4)** | **611** | **(2)** | **875** |
| **Deferred tax assets** | | | | | |
| Loans, advances, hire purchase and leasing receivables | **(980)** | **204** | **-** | **25** | **(751)** |
| Factoring receivables | **(738)** | **(18)** | **-** | **27** | **(729)** |
| Other investments | **(103)** | **-** | **(97)** | **-** | **(200)** |
| Others | **(1,209)** | **89** | **-** | **14** | **(1,106)** |
| | **(3,030)** | **275** | **(97)** | **66** | **(2,786)** |
| Net | **(2,760)** | **271** | **514** | **64** | **(1,911)** |

| | At 1/1/2011 $'000 | Recognised in income statement (Note 33) $'000 | Recognised in other comprehensive income $'000 | Exchange differences $'000 | At 31/12/2011 $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | 306 | (161) | - | (2) | 143 |
| Trade and other receivables | 60 | (59) | - | - | 1 |
| Trade and other payables | 4 | - | - | - | 4 |
| Dividend not remitted to Singapore | 114 | - | - | - | 114 |
| Other investments | 272 | - | (264) | - | 8 |
| | 756 | (220) | (264) | (2) | 270 |
| **Deferred tax assets** | | | | | |
| Loans, advances, hire purchase and leasing receivables | (957) | (54) | - | 31 | (980) |
| Factoring receivables | (1,033) | 254 | - | 41 | (738) |
| Other investments | (791) | 770 | (82) | - | (103) |
| Others | (984) | (239) | - | 14 | (1,209) |
| | (3,765) | 731 | (82) | 86 | (3,030) |
| Net | (3,009) | 511 | (346) | 84 | (2,760) |

## 10. Deferred tax assets and liabilities (cont'd)

Movements in the temporary differences during the year are as follows:

| | At 1/1/2012 $'000 | Recognised in income statement $'000 | Recognised in other comprehensive income $'000 | At 31/12/2012 $'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **Deferred tax liabilities** | | | | |
| Property, plant and equipment | **77** | **(2)** | **-** | **75** |
| Other investments | **-** | **-** | **602** | **602** |
| | **77** | **(2)** | **602** | **677** |
| **Deferred tax assets** | | | | |
| Loans, advances, hire purchase and leasing receivables | **(94)** | **48** | **-** | **(46)** |
| Factoring receivables | **(4)** | **-** | **-** | **(4)** |
| Other investments | **(4)** | **-** | **4** | **-** |
| | **(102)** | **48** | **4** | **(50)** |
| Net | **(25)** | **46** | **606** | **627** |

| | At 1/1/2011 $'000 | Recognised in income statement $'000 | Recognised in other comprehensive income $'000 | At 31/12/2011 $'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **Deferred tax liabilities** | | | | |
| Property, plant and equipment | 115 | (38) | - | 77 |
| | 115 | (38) | - | 77 |
| **Deferred tax assets** | | | | |
| Loans, advances, hire purchase and leasing receivables | (137) | 43 | - | (94) |
| Factoring receivables | (15) | 11 | - | (4) |
| Other investments | 47 | - | (51) | (4) |
| | (105) | 54 | (51) | (102) |
| Net | 10 | 16 | (51) | (25) |

## 11. Insurance contract provisions

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Gross $'000 | Reinsurance $'000 | Net $'000 | Gross $'000 | Reinsurance $'000 | Net $'000 |
| **Group** | | | | | | |
| Provision for unexpired risks | **11,864** | **(7,775)** | **4,089** | 12,530 | (7,740) | 4,790 |
| Provision for claims | **2,557** | **(1,337)** | **1,220** | 3,075 | (1,593) | 1,482 |
| | **14,421** | **(9,112)** | **5,309** | 15,605 | (9,333) | 6,272 |

*Analysis of movements in provision for unexpired risks*

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Gross $'000 | Reinsurance $'000 | Net $'000 | Gross $'000 | Reinsurance $'000 | Net $'000 |
| **Group** | | | | | | |
| At 1 January | **12,530** | **(7,740)** | **4,790** | 12,814 | (8,151) | 4,663 |
| Change during the year | **(666)** | **(35)** | **(701)** | (284) | 411 | 127 |
| At 31 December | **11,864** | **(7,775)** | **4,089** | 12,530 | (7,740) | 4,790 |

*Analysis of movements in provision for insurance claims*

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Gross $'000 | Reinsurance $'000 | Net $'000 | Gross $'000 | Reinsurance $'000 | Net $'000 |
| **Group** | | | | | | |
| At 1 January | **3,075** | **(1,593)** | **1,482** | 5,110 | (2,539) | 2,571 |
| Claims paid/(recovered) | **115** | **(59)** | **56** | (432) | 179 | (253) |
| Claims incurred | **(633)** | **315** | **(318)** | (1,603) | 767 | (836) |
| At 31 December | **2,557** | **(1,337)** | **1,220** | 3,075 | (1,593) | 1,482 |

*Analysis of the estimated timing of cash outflows (undiscounted) relating to provision for insurance claims*

| | Group | |
|---|---|---|
| | 2012 $'000 | 2011 $'000 |
| Less than 1 year | **1,129** | 1,025 |
| Between 1-2 years | **86** | 351 |
| Between 2-3 years | **5** | 94 |
| Between 3-4 years | **-** | 12 |
| | **1,220** | 1,482 |

# Notes to the Financial Statements

## 12. Insurance receivables

| | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|
| Receivables arising from insurance contracts | **1,197** | 930 |
| Reinsurance contract receivables | **10** | 10 |
| | **1,207** | 940 |
| Allowance for doubtful receivables | **(279)** | (260) |
| | **928** | 680 |

Insurance receivables are non interest-earning.

The maximum credit exposure to credit risk of insurance receivables at the reporting date is the carrying amount.

The movements in the allowance for impairment of doubtful receivables during the year are as follows:

| | Note | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|---|
| At 1 January | | **260** | 391 |
| Allowance made/(reversed) during the year (net) | 31 | **24** | (51) |
| Allowance utilised during the year | | **(5)** | (80) |
| At 31 December | | **279** | 260 |

## 13. Trade and other receivables

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| Loans, advances, hire purchase and leasing receivables | 8 | **85,002** | 92,776 | **59,150** | 68,537 |
| Factoring receivables | 14 | **133,740** | 117,859 | **15,317** | 16,136 |
| Amount owing by non-controlling shareholders | | **96** | 96 | **2,487** | 2,487 |
| Loan owing by subsidiaries | | | | | |
| - trade | | **-** | - | **18,582** | 36,729 |
| - non-trade | | **-** | - | **342** | 333 |
| | | **-** | - | **18,924** | 37,062 |
| Allowance for impairment | | **-** | - | **(1,505)** | - |
| | | **-** | - | **17,419** | 37,062 |
| Deposits and other receivables | 15 | **3,805** | 1,629 | **742** | 390 |
| **Loans and receivables** | | **222,643** | 212,360 | **95,115** | 124,612 |
| Prepayment | | **757** | 584 | **157** | 124 |
| | | **223,400** | 212,944 | **95,272** | 124,736 |

## 13. Trade and other receivables (cont'd)

The movement in the allowance for impairment of loan owing by a subsidiary (trade) during the year is as follows:

| | Company | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| At 1 January | **-** | - |
| Allowance made during the year (net) | **1,505** | - |
| At 31 December | **1,505** | - |

The amount owing by non-controlling shareholders is unsecured, interest-free and is repayable on demand. The loans owing by subsidiaries (trade) are unsecured, interest-bearing and are repayable on demand. The loans owing by subsidiaries (non-trade) are unsecured, non-interest bearing and are repayable on demand.

*Effective interest rates and repricing analysis:*

| | **Weighted average effective interest rate** | **Total** | **Weighted average effective interest rate** | **Total** |
|---|---|---|---|---|
| | | **2012** | | **2011** |
| | **%** | **$'000** | **%** | **$'000** |
| **Company** | | | | |
| Loans owing by subsidiaries | | | | |
| - variable rate | **4.2** | **17,077** | 5.4 | 36,729 |
| - non interest-earning | **-** | **342** | - | 333 |
| | | **17,419** | | 37,062 |

**Group**

Effective interest rate and repricing analysis for loans, advances, hire purchase and leasing receivables and factoring receivables are as set out in Notes 8 and 15 respectively.

## 14. Factoring receivables

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **2012** | **2011** | **2012** | **2011** |
| | | **$'000** | **$'000** | **$'000** | **$'000** |
| Factoring receivables | 37 | **177,700** | 159,269 | **24,502** | 24,112 |
| Less: | | | | | |
| Factoring amounts owing to clients | | **(39,003)** | (36,926) | **(8,856)** | (7,697) |
| | | **138,697** | 122,343 | **15,646** | 16,415 |
| Allowance for doubtful receivables | | **(4,957)** | (4,484) | **(329)** | (279) |
| | 13 | **133,740** | 117,859 | **15,317** | 16,136 |

## 14. Factoring receivables (cont'd)

The movements in allowance for impairment of factoring receivables during the year are as follows:

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| At 1 January | | **4,484** | 4,310 | **279** | 291 |
| Translation adjustment | | **(177)** | (140) | **-** | - |
| Allowance made during the year (net) | 31 | **658** | 401 | **52** | 40 |
| Allowance utilised during the year | | **(8)** | (87) | **(2)** | (52) |
| At 31 December | | **4,957** | 4,484 | **329** | 279 |

The weighted average interest rates of factoring receivables net of factoring amounts owing to clients included in Trade and Other Payables of $1,829,927 for the Group and Company (2011: Group and Company: $3,292,649) (refer to Note 22) and allowance for doubtful receivables at the reporting date and the periods in which they reprice are as follows:

| | Weighted average effective interest rate % | Total 2012 $'000 | Weighted average effective interest rate % | Total 2011 $'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Factoring receivables, net | | | | |
| - fixed rate | **5.0** | **145** | 5.0 | 197 |
| - variable rate | **9.4** | **131,765** | 10.0 | 114,369 |
| | | **131,910** | | 114,566 |
| **Company** | | | | |
| Factoring receivables, net | | | | |
| - fixed rate | **5.0** | **145** | 5.0 | 197 |
| - variable rate | **7.9** | **13,342** | 8.4 | 12,646 |
| | | **13,487** | | 12,843 |

## 15. Deposits and other receivables

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| Deposits | | **41** | 53 | **8** | 8 |
| Tax recoverable | | **135** | 23 | **-** | - |
| Accrued interest receivable | | **279** | 331 | **14** | 13 |
| Other receivables: | | | | | |
| Gross receivables | | **5,614** | 3,319 | **1,024** | 496 |
| Allowance for doubtful receivables | | **(2,264)** | (2,097) | **(304)** | (127) |
| Other receivables, net | | **3,350** | 1,222 | **720** | 369 |
| | 13 | **3,805** | 1,629 | **742** | 390 |

The movements in allowance for impairment of other receivables during the year are as follows:

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| At 1 January | | **2,097** | 2,347 | **127** | 387 |
| Allowance/(reversal) made during the year (net) | 31 | **176** | (146) | **186** | (158) |
| Allowance utilised during the year | | **(9)** | (104) | **(9)** | (102) |
| At 31 December | | **2,264** | 2,097 | **304** | 127 |

## 16. Cash and cash equivalents

| | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|
| Cash at banks and in hand | **15,869** | 9,709 | **2,611** | 2,263 |
| Fixed deposits | **37,487** | 19,941 | **6,816** | 5,241 |
| Cash and cash equivalents in the consolidated statement of cash flows | **53,356** | 29,650 | **9,427** | 7,504 |

## 16. Cash and cash equivalents (cont'd)

*Effective interest rates and repricing analysis:*

| | Weighted average effective interest rate % | Floating rate $'000 | Fixed interest rate maturing within 1 year $'000 | Non interest-earning $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2012** | | | | | |
| Cash at banks and in hand | **0.7** | **11,354** | **-** | **4,515** | **15,869** |
| Fixed deposits | **1.0** | **-** | **37,487** | **-** | **37,487** |
| | | **11,354** | **37,487** | **4,515** | **53,356** |
| **2011** | | | | | |
| Cash at banks and in hand | 0.8 | 5,174 | - | 4,535 | 9,709 |
| Fixed deposits | 0.6 | - | 19,941 | - | 19,941 |
| | | 5,174 | 19,941 | 4,535 | 29,650 |
| **Company** | | | | | |
| **2012** | | | | | |
| Cash at banks and in hand | **-** | **-** | **-** | **2,611** | **2,611** |
| Fixed deposits | **0.7** | **-** | **6,816** | **-** | **6,816** |
| | | **-** | **6,816** | **2,611** | **9,427** |
| **2011** | | | | | |
| Cash at banks and in hand | - | - | - | 2,263 | 2,263 |
| Fixed deposits | 0.3 | - | 5,241 | - | 5,241 |
| | | - | 5,241 | 2,263 | 7,504 |

## 17. Deposits relating to collateral of clients

The Group has clients' monies placed as fixed deposits of $5,142,428 (2011: $6,630,939), held as collateral for guarantees issued on behalf of policyholders. The fair value of the cash collateral as at reporting date approximate their carrying amounts. These amounts have been excluded from both cash at bank and other payables in the statement of financial position.

## 18. Share capital

| | Group and Company No. of shares 2012 | 2011 |
|---|---|---|
| At 1 January | **150,387,866** | 150,387,866 |
| At 31 December | **150,387,866** | 150,387,866 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

## 18. Share capital (cont'd)

*Capital management*

Except for one of its subsidiaries, the Group is not regulated by externally imposed capital requirements. However, the capital of this regulated subsidiary is separately managed to comply with the insurance capital requirements required by the local regulator.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business as well as to ensure that the minimum required capital of its regulated subsidiary is maintained.

The minimum capital required for the insurance business as stipulated by the local regulator is $25 million. With effect from 1 January 2008, the subsidiary has to comply with the Risk Based Capital Adequacy Requirement ("CAR") of a minimum of 120% (subject to the financial resource of the subsidiary not being less than $5 million). Although the prescribed financial warning event for the CAR is 120%, the Group has set two higher internal trigger limits for monitoring the CAR. In the event of any breaches of the internal trigger limits, the Board has prescribed certain courses of action for the management to undertake to bring the CAR level to the prescribed levels.

The Board of Directors monitors the return on equity, which the Group defines as profit after tax divided by total average shareholders' equity, excluding non-controlling interests. The Board of Directors also monitors the leverage ratio as well as the level of dividends to ordinary shareholders. The leverage ratio is defined as total consolidated liabilities divided by the total consolidated tangible net worth.

As part of the annual corporate planning process, the Group projects the capital and funding requirements for the Board's approval.

The Group's strategy is to maintain a leverage ratio of less than 5.5 times and dividend distribution of at least 30% of the earnings each year.

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

## 19. Other reserves

Other reserves comprise:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Fair value reserve | **2,046** | (464) | **2,941** | (20) |
| Capital reserve | **1,074** | 910 | **-** | - |
| Other equity | **(1,496)** | (1,496) | **-** | - |
| | **(422)** | (586) | **-** | - |
| Currency translation reserve | **(4,869)** | (2,082) | **-** | - |
| | **(3,245)** | (3,132) | **2,941** | (20) |

## 19. Other reserves (cont'd)

*Fair value reserve*

The fair value reserve relates to the net change in the fair value of available-for-sale investments until the investments are derecognised.

*Capital reserve*

The capital reserve relates to the statutory legal reserve transferred from revenue reserve in accordance with the foreign jurisdiction in which the Group's subsidiary operates.

*Currency translation reserve*

The currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

*Other equity*

The other equity represents the effect of 25.07% dilution from 98.2% to 73.13% of the Group's shareholding interest in IFS Capital (Thailand) Public Company Limited following its initial public offer of 120 million new shares at offer price of THB1.35 per share on 5 August 2010. As the change in the Group's percentage does not result in a loss of control, the effect of dilution as computed was recognised directly in equity.

*Dividends*

The following dividends were declared and paid by the Group and Company:

**For the year ended 31 December**

| | Group and Company | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Final one-tier tax exempt dividend of 1.75 cents (2011: 1.50 cents) per share in respect of year 2011/2010 | **2,632** | 2,256 |

After the respective reporting dates, the following dividend was proposed by the directors. The dividend has not been provided for and there is no income tax consequence.

| | Group and Company | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| First and final one-tier tax exempt dividend of 2.0 cents (2011: 1.75 cents) per share in respect of year 2012/2011 | **3,008** | 2,632 |

## 20. Interest-bearing borrowings

| | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|
| Payable: | | | | |
| Within 12 months | **206,794** | 181,061 | **99,365** | 118,867 |
| After 12 months | **43,132** | 34,306 | **31,657** | 26,762 |
| | **249,926** | 215,367 | **131,022** | 145,629 |

The interest-bearing borrowings comprise:

| | Note | 2012 Face value $'000 | 2012 Carrying amount $'000 | 2011 Face value $'000 | 2011 Carrying amount $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Unsecured short-term bank loans | (a) | **180,946** | **180,946** | 164,153 | 164,153 |
| Unsecured long-term bank loans | (b) | **65,095** | **65,095** | 45,744 | 45,744 |
| Unsecured SPRING and IES loans | (c) | **3,885** | **3,885** | 5,470 | 5,470 |
| | | **249,926** | **249,926** | 215,367 | 215,367 |
| **Company** | | | | | |
| Unsecured short-term bank loans | (a) | **83,720** | **83,720** | 110,159 | 110,159 |
| Unsecured long-term bank loans | (b) | **43,417** | **43,417** | 30,000 | 30,000 |
| Unsecured SPRING and IES loans | (c) | **3,885** | **3,885** | 5,470 | 5,470 |
| | | **131,022** | **131,022** | 145,629 | 145,629 |

(a) Unsecured short-term bank loans bear nominal interest rates ranging from 1.4% to 10.0% (2011: 1.4% to 9.0%) per annum and are repayable in 2013. For Group, these include subsidiaries' bank loans denominated in Indonesian Rupiah, Malaysian Ringgit and Thai Baht.

(b) The unsecured long-term bank loans bear nominal interest rates ranging from 1.8% to 5.0% (2011: 1.5% to 5.6%) per annum and are repayable by quarterly/semi-annual/bullet repayments between 2013 to 2015. For Group, these include subsidiaries' bank loans denominated in Thai Baht.

(c) These represent unsecured advances from SPRING Singapore and International Enterprise Singapore ("IES") to fund loans and advances extended by the Company to borrowers under the Local Enterprise Finance Scheme ("LEFS") and Internationalisation Finance Scheme ("IF Scheme") respectively. Credit risk for loans and advances made under these schemes are shared by the providers of these borrowings and the Company.

The interest rates and repayment periods vary in accordance with the type, purpose and security for the facilities granted under the above schemes. Nominal interest rates on the above loans and advances ranged from 2.5% to 5.4% (2011: 2.8% to 2.9%) per annum and are repayable between 2012 and 2014.

(d) In 2003, the Company established a $250 million Multi-currency Medium Term Note Programme (the "MTN Programme"). Pursuant to this, the Company may from time to time issue debt under the Programme subject to availability of funds from the market. There were no notes issued under this programme in 2012 and 2011.

## 20. Interest-bearing borrowings (cont'd)

### Intra-group financial guarantee

Intra-group financial guarantee comprises a guarantee granted by the Company to banks in respect of banking facilities amounting to $19,992,129 (2011: $34,180,856) granted to subsidiaries. At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the guarantee.

*Effective interest rates and repricing analysis:*

| | Weighted average effective interest rate % | Floating rate $'000 | Fixed interest rate maturing within 1 year $'000 | Fixed interest rate maturing in 1 to 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2012** | | | | | |
| Unsecured short-term bank loans | **2.8** | **180,946** | **-** | **-** | **180,946** |
| Unsecured long-term bank loans | **3.0** | **65,095** | **-** | **-** | **65,095** |
| Unsecured SPRING and IES loans | **3.0** | **-** | **3,311** | **574** | **3,885** |
| | | **246,041** | **3,311** | **574** | **249,926** |
| **2011** | | | | | |
| Unsecured short-term bank loans | 3.0 | 164,153 | - | - | 164,153 |
| Unsecured long-term bank loans | 3.0 | 45,744 | - | - | 45,744 |
| Unsecured SPRING and IES loans | 2.9 | - | 3,208 | 2,262 | 5,470 |
| | | 209,897 | 3,208 | 2,262 | 215,367 |
| **Company** | | | | | |
| **2012** | | | | | |
| Unsecured short-term bank loans | **1.6** | **83,720** | **-** | **-** | **83,720** |
| Unsecured long-term bank loans | **2.2** | **43,417** | **-** | **-** | **43,417** |
| Unsecured SPRING and IES loans | **3.0** | **-** | **3,311** | **574** | **3,885** |
| | | **127,137** | **3,311** | **574** | **131,022** |
| **2011** | | | | | |
| Unsecured short-term bank loans | 2.4 | 110,159 | - | - | 110,159 |
| Unsecured long-term bank loans | 1.8 | 30,000 | - | - | 30,000 |
| Unsecured SPRING and IES loans | 2.9 | - | 3,208 | 2,262 | 5,470 |
| | | 140,159 | 3,208 | 2,262 | 145,629 |

## 21. Employee benefits

A foreign subsidiary of the Group provides for severance pay under the Thai Labor Protection Act and long service awards payable to employees. The foreign subsidiary of the Group calculated the provision for employee benefits by using the actuarial technique. Principal actuarial assumptions at the reporting date are as follows:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| Discount rate at 31 December | **4%** | 4% |
| Resignation rate based on age group of employees | **2%, 6% & 11%** | 2%,6% &11% |
| Future salary increases | **9%** | 9% |
| Retirement age | **60 years** | 60 years |

Provision for employee benefits for the year ended 31 December consists of the following:

| | | Group | |
|---|---|---|---|
| | **Note** | **2012** | **2011** |
| | | **$'000** | **$'000** |
| At 1 January | | **758** | 666 |
| Provision for severance pay and long service awards | 32 | **136** | 129 |
| Benefits paid during the year | | **(7)** | (10) |
| Translation adjustments | | **(21)** | (27) |
| | | **866** | 758 |

During the year, an amount of $136,000 (2011: $129,000) was recognised in "General and administrative expenses" in the consolidated income statement for the year ended 31 December 2012.

## 22. Trade and other payables

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **2012** | **2011** | **2012** | **2011** |
| | | **$'000** | **$'000** | **$'000** | **$'000** |
| Factoring amounts owing to clients | | **1,830** | 3,293 | **1,830** | 3,293 |
| Trade payables | | **230** | 157 | **222** | 151 |
| Amounts and loans due to subsidiary | | | | | |
| - interest-bearing loans | | **-** | - | **2,189** | 11,291 |
| Other payables and accruals | 23 | **9,638** | 9,653 | **3,620** | 4,182 |
| | | **11,698** | 13,103 | **7,861** | 18,917 |

**Group**

For factoring amounts owing to clients, please refer to Note 14 to the financial statements. Trade payables, other payables and accruals are non interest-bearing financial liabilities.

## 22. Trade and other payables (cont'd)

**Company**

The interest-bearing loans owing to subsidiary are unsecured and repayable on demand and priced on an arm's length basis.

The weighted average effective interest rate of interest bearing loan owing to subsidiary at the end of the financial year 2012 was 2.0% (2011: 2.1%) per annum.

## 23. Other payables and accruals

| | Note | Group 2012 $'000 | Group 2011 $'000 | Company 2012 $'000 | Company 2011 $'000 |
|---|---|---|---|---|---|
| Accrued operating expenses | | **6,829** | 7,016 | **3,277** | 3,641 |
| Deferred income | | **64** | 79 | **-** | - |
| Clients' security deposits | | **2,387** | 1,975 | **172** | 170 |
| Accrued interest payable | | **358** | 583 | **171** | 371 |
| | 22 | **9,638** | 9,653 | **3,620** | 4,182 |

## 24. Insurance payables

| | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|
| Payables arising from insurance contracts | **2,070** | 1,360 |
| Reinsurance contract payables | **1,605** | 1,404 |
| | **3,675** | 2,764 |

## 25. Interest income

| | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|
| Loans, advances, hire purchase, leasing receivables and factoring accounts to customers | **26,765** | 21,949 |

## 26. Interest expense

| | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|
| Banks and Spring Singapore | **7,161** | 5,038 |

## 27. Income statement of insurance subsidiary - ECICS Limited

| | Note | Group 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Gross written premiums | | **9,290** | 8,909 |
| Change in gross provision for unexpired risks | 11 | **666** | 284 |
| Gross earned premium revenue | | **9,956** | 9,193 |
| Written premiums ceded to reinsurers | | **(6,210)** | (5,940) |
| Reinsurers' share of change in the provision for unexpired risks | 11 | **35** | (411) |
| Reinsured premium expenses | | **(6,175)** | (6,351) |
| **Net earned premium revenue** | | **3,781** | 2,842 |
| **Other revenue** | | | |
| Commission income | | **2,082** | 2,065 |
| Investment income | | **1,418** | 978 |
| | | **3,500** | 3,043 |
| **Net income before claims and expenses** | | **7,281** | 5,885 |
| **Claims and expenses** | | | |
| Change in provision for insurance claims | | **517** | 2,036 |
| Reinsurers' share of change in provision for insurance claims | | **(256)** | (946) |
| Gross claims recovered/(paid) | 11 | **(115)** | 432 |
| Reinsurers' share of claims paid/(recovered) | 11 | **59** | (179) |
| **Net claims reversal** | | **205** | 1,343 |
| Commission expenses | | **(296)** | (317) |
| Investment expenses | | **(7)** | (5) |
| Distribution expenses | | **(85)** | (80) |
| Administration expenses | | **(945)** | (888) |
| Staff costs | | **(2,263)** | (2,137) |
| (Allowance made)/reversal of insurance and other receivables | | **(24)** | 51 |
| **Total claims and expenses** | | **(3,415)** | (2,033) |
| **Net profit before tax for the year** | | **3,866** | 3,852 |

The income statement reflects the credit, maid and spa insurance, bonds and guarantee businesses of the insurance subsidiary, ECICS Limited, that are consolidated in the Group's income statement. All intra-group transactions relating to credit premium income and expenses are eliminated on consolidation.

## 28. Fee and commission income

| | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|
| Fee income | **6,695** | 7,506 |
| Underwriting commission income | **2,081** | 2,065 |
| | **8,776** | 9,571 |

## 29. Investment income

| | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|
| Dividend income | **160** | 30 |
| Gain on disposal of equity securities | **1,738** | 212 |
| Net change in fair value of financial assets | | |
| - designated as fair value through profit or loss | **47** | (7) |
| Interest income from bonds, fixed deposits and others | **1,364** | 1,309 |
| Amortisation of held-to-maturity debt securities | **55** | 65 |
| | **3,364** | 1,609 |

## 30. Other income

| | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|
| Recoveries - loans, advances and receivables | **129** | 488 |
| Gain on disposal of property, plant and equipment | **60** | 27 |
| Others | **135** | 99 |
| | **324** | 614 |

## 31. Allowances for/(reversal of) loan losses and impairment of other assets

| | Note | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|---|
| In respect of: | | | |
| Trade and other receivables | | | |
| - loans, advances, hire purchase, leasing and factoring receivables (net) | 8, 14 | **1,926** | 4,436 |
| - insurance and other receivables | 12, 15 | **200** | (197) |
| - debts written off | | **78** | 6 |
| Intangible assets | 5 | **572** | - |
| Available-for-sale equity and debt securities | 7 | **279** | 372 |
| | | **3,055** | 4,617 |

## 32. Profit before tax

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

| | Note | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|---|
| Amortisation of intangible assets | 5 | **954** | 1,025 |
| Depreciation of property, plant and equipment | | **1,049** | 1,137 |
| Property, plant and equipment written off | 4 | **-** | 1 |
| Exchange loss, net | | **292** | 204 |
| Audit fees | | | |
| - auditors of the Company | | **361** | 348 |
| - other auditors | | **85** | 87 |
| Non-audit fees | | | |
| - auditors of the Company | | **142** | 128 |
| - other auditors | | **8** | 3 |
| Directors' fees | | **351** | 397 |
| Fees paid to corporations in which the directors have interests | | **16** | 14 |
| Contributions to defined contribution plans included in staff costs | | **979** | 850 |
| Provision for severance pay and long service awards | 21 | **136** | 129 |

## 33. Tax expense

| | Note | Group 2012 $'000 | Group 2011 $'000 |
|---|---|---|---|
| **Current tax (expense)/credit** | | | |
| Current year | | **(2,915)** | (2,885) |
| Overprovided in prior years | | **15** | 2,268 |
| | | **(2,900)** | (617) |
| **Deferred tax credit/(expense)** | | | |
| Movements in temporary differences | | **(233)** | 235 |
| (Over)/underprovided in prior years | | **(38)** | (746) |
| | 10 | **(271)** | (511) |
| | | **(3,171)** | (1,128) |
| ***Reconciliation of effective tax rate*** | | | |
| Profit before tax | | **11,998** | 8,831 |
| Tax using Singapore tax rate of 17% (2011:17%) | | **(2,040)** | (1,501) |
| Effect of different tax rates in other countries | | **(566)** | (762) |
| Effect of change in the tax rate | | **(443)** | (310) |
| Expenses not deductible for tax purposes | | **(337)** | (339) |
| Tax benefit | | **208** | 153 |
| Tax exempt revenues | | **30** | 51 |
| Reversal of temporary differences | | **-** | 58 |
| (Under)/overprovided in prior years | | **(23)** | 1,522 |
| | | **(3,171)** | (1,128) |

## 33. Tax expense (cont'd)

**Income tax recognised in other comprehensive income**

| For the year ended 31 December | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Before tax $'000 | Tax expense $'000 | Net of tax $'000 | Before tax $'000 | Tax expense $'000 | Net of tax $'000 |
| **Group** | | | | | | |
| Foreign currency translation differences for foreign operations | **(3,029)** | **-** | **(3,029)** | (1,513) | - | (1,513) |
| Net change in fair value of available-for-sale financial assets | **3,024** | **(514)** | **2,510** | (2,040) | 346 | (1,694) |
| | **(5)** | **(514)** | **(519)** | (3,553) | 346 | (3,207) |

## 34. Earnings per share

| | Group | |
|---|---|---|
| | 2012 $'000 | 2011 $'000 |
| **Basic and diluted earnings per share** | | |
| Basic and diluted earnings per share is based on | | |
| Net profit attributable to ordinary shareholders | **7,622** | 6,956 |
| | **No. of shares** | |
| | '000 | '000 |
| Issued ordinary shares at beginning of the year | **150,389** | 150,389 |
| Weighted average number of ordinary shares at end of the year | **150,389** | 150,389 |

## 35. Contingent liabilities and commitments

*Contingent liabilities*

As at 31 December, the Group and the Company has outstanding standby letters of credit and bankers guarantees issued on behalf of customers as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| Letters of credit | **3,052** | 3,484 | **512** | 275 |
| Bank guarantees | **2,245** | 2,758 | **-** | - |
| | **5,297** | 6,242 | **512** | 275 |

## 35. Contingent liabilities and commitments (cont'd)

*Commitments*

At 31 December, the Group has commitments for future minimum lease payments under non-cancellable operating leases as follows:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Within 1 year | **214** | 130 |
| After 1 year but within 5 years | **106** | 62 |
| | **320** | 192 |

The Group's subsidiaries lease three office premises under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the lease after that date. Lease payments are increased annually to reflect market rentals.

## 36. Significant related parties transactions

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

*Key management personnel compensation*

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Key management personnel compensation | **2,782** | 2,746 |

Key management personnel refers to the Group Chief Executive Officer, General Managers and Senior Management of the holding company as well as Chief Executive Officers or Country Head equivalent of the subsidiaries, who have the authority and responsibility for planning, directing and controlling the activities of the Group and the Company.

Remuneration comprise salary, allowances, bonuses (annual wage supplement and performance bonus), employers' contributions to defined contribution plans and other benefits including severance and retirement benefits provided for a key management personnel of an overseas subsidiary as required under the country's labour regulations.

## 36. Significant related parties transactions (cont'd)

*Other related parties transactions*

Other than disclosed elsewhere in the financial statements, the transactions with related parties are as follows:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| **Affiliated corporations** | | |
| Professional and brokerage fees incurred | **5** | (5) |
| Software development fees incurred | **2** | 2 |
| Fund management fees incurred | **6** | 4 |
| Rental | **-** | 3 |
| **Director of Company** | | |
| Professional fees | **4** | 4 |

## 37. Financial and insurance risk management

Accepting and managing risk is central to the business of being a financial services provider and is an important part of the Group's overall business strategy. The Group has adopted formal risk management policies and procedures which are approved by the Board. These risks management guidelines set out both procedures as well as quantitative limits to minimise risks arising from the Group's exposures to such factors. The main financial and insurance risks that the Group is exposed to and how they are being managed are set out below.

*Credit risk*

The principal risk to which the Group is exposed is credit risk in connection with its loans, factoring, credit insurance, bond, guarantee and insurance activities. Credit risk is the potential financial loss resulting from the failure of a customer or a counterparty to settle its financial and contractual obligations to the Group, as and when they fall due. Management has established credit and insurance processes and limits to manage these risks including performing credit reviews of its customers and counterparties, risk-sharing and obtaining collaterals as security where considered necessary.

Other credit risks represent the loss that would be recognised if counterparties in connection with insurance, reinsurance, investment and banking transactions failed to perform as contracted. Credit evaluations are performed on all new brokers, reinsurers, financial institutions and other counterparties.

Credit risk in respect of the Group's lending activities is managed and monitored in accordance with defined credit policies and procedures. Significant credit risk strategies and policies are approved, and reviewed periodically by the Board of Directors. These include setting authority limits for approving credit facilities and establishing limits on single client, related entities, and industry exposures to ensure the broad diversification of credit risk and to avoid undue concentration. These policies are delegated to and disseminated under the guidance and control of the Management Committee (comprising Senior Management) and Credit Committee. A delegated credit approval authority limit structure, approved by the Board of Directors, is as follows:

## 37. Financial and insurance risk management (cont'd)

*Credit risk (cont'd)*

- The Credit Committee, comprising executive director and senior management staff assess, review and make decisions on credit risks of the Group within the authority limits imposed by the Board;
- The Credit Risk Management Department independently assesses the creditworthiness and risk profile of the obligors and formulates credit policies and procedures for the Group;
- The Client Audit Unit conducts audits on new factoring clients and some times, loan clients before account activation and for existing ones, on a periodic basis;
- Daily monitoring of accounts is handled by Client Relationship and Business Development Teams together with Operations Department and Credit Risk Management Department;
- The Internal Audit function provides independent assurance to senior management and the Audit Committee concerning compliance with credit processes, policies and the adequacy of internal controls; and
- Established limits and actual levels of exposure are regularly reviewed and reported to the Board of Directors on a periodic basis.

Credit risk arising on loans to customers under the LEFS and IF Scheme are under risk-sharing arrangements with SPRING Singapore and IES respectively, with the risk-sharing ranging from 50% to 80% of the funds disbursed.

The credit risk for loans, advances, hire purchase, leasing, factoring and insurance receivables based on the information provided to management are as follows:

### *(I) Exposure to credit risk*

*(a) Loans, advances, hire purchase and leasing receivables*

Loans, advances, hire purchase and leasing receivables are summarised as follows:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **2012** | **2011** | **2012** | **2011** |
| | | **$'000** | **$'000** | **$'000** | **$'000** |
| Collectively assessed | | | | | |
| Neither past due nor impaired (i) | | **147,863** | 154,808 | **102,650** | 111,206 |
| Past due but not impaired (ii) | | **13,764** | 2,369 | **11,248** | 1,771 |
| Gross amount | | **161,627** | 157,177 | **113,898** | 112,977 |
| Collective impairment | | **(1,882)** | (2,528) | **(1,669)** | (2,343) |
| | | **159,745** | 154,649 | **112,229** | 110,634 |
| Individually impaired (iii) | | **11,786** | 8,514 | **5,622** | 4,619 |
| Allowance for impairment | | **(7,733)** | (6,139) | **(4,185)** | (2,418) |
| | | **4,053** | 2,375 | **1,437** | 2,201 |
| Total carrying amount | 8 | **163,798** | 157,024 | **113,666** | 112,835 |

## 37. Financial and insurance risk management (cont'd)

*Credit risk (cont'd)*

### *(I) Exposure to credit risk (cont'd)*

(i) Loans, advances, hire purchase and leasing receivables neither past due nor impaired, analysed by loan grading:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Grades 1 to 5 (gross amount) | **147,863** | 154,808 | **102,650** | 111,206 |
| includes accounts with renegotiated terms | **8,963** | 13,142 | **8,963** | 12,612 |
| includes accounts that are unsecured | **36,727** | 49,805 | **32,758** | 41,958 |

(ii) Loans, advances, hire purchase and leasing receivables past due but not impaired, analysed by past due period and loan grading:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Grades 1 to 5 (gross amount) | **41** | 68 | **-** | - |
| Grades 6 to 9 (gross amount) | **13,723** | 2,301 | **11,248** | 1,771 |
| | **13,764** | 2,369 | **11,248** | 1,771 |
| Past due comprises | | | | |
| 0 - 30 days | **10,613** | 1,258 | **10,613** | 1,257 |
| 31 - 60 days | **2,075** | 81 | **71** | 47 |
| 61 - 90 days | **185** | 80 | **176** | 47 |
| 91 - 180 days | **818** | 140 | **319** | 140 |
| More than 180 days | **73** | 810 | **69** | 280 |
| | **13,764** | 2,369 | **11,248** | 1,771 |

(iii) Loans, advances, hire purchase and leasing receivables individually impaired, analysed by loan grading:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Grades 1 to 6 | **-** | - | **-** | - |
| Grade 7 | **215** | 127 | **-** | - |
| Grade 8 | **4,163** | 6,306 | **1,340** | 2,538 |
| Grade 9 | **7,408** | 2,081 | **4,282** | 2,081 |
| Gross amount | **11,786** | 8,514 | **5,622** | 4,619 |
| Allowance for impairment | **(7,733)** | (6,139) | **(4,185)** | (2,418) |
| Carrying amount | **4,053** | 2,375 | **1,437** | 2,201 |

## 37. Financial and insurance risk management (cont'd)

*Credit risk (cont'd)*

### *(I) Exposure to credit risk (cont'd)*

(b) Factoring receivables

The Group's credit risk exposures on factoring receivables comprise the following types of risks: recourse and non-recourse factoring. The receivables represent the debts that were factored to the Group by its clients of which the Group may provide funding up to 90% of the eligible debts.

The "recourse" factoring relates to debts for which the Group and the Company do not bear the risk of non-payment. Conversely, in the "non-recourse" factoring, the Group and the Company bear any bad debt risk that may arise. The Group reinsures part of the debts under non-recourse factoring with external reinsurers.

The breakdown by type of factoring risk is as follows:

| | | Factoring receivables | | | |
|---|---|---|---|---|---|
| | | Group | | Company | |
| | Note | 2012 | 2011 | 2012 | 2011 |
| | | $'000 | $'000 | $'000 | $'000 |
| Recourse | | **171,957** | 151,069 | **18,759** | 15,912 |
| Non-recourse | | **5,743** | 8,200 | **5,743** | 8,200 |
| | 14 | **177,700** | 159,269 | **24,502** | 24,112 |

The ageing of past due but not impaired factoring receivables for more than 180 days and above at the reporting date is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| **Past due but not impaired receivables** | | | | |
| More than 180 days | **767** | 1,771 | **767** | 769 |

For non-recourse factoring, the Group will assume the credit risks for debts arising from approved credit sales and the settlement date in relation to claims arising from such debts is 180 days after the due date of the debts.

## 37. Financial and insurance risk management (cont'd)

*Credit risk (cont'd)*

### *(I) Exposure to credit risk (cont'd)*

*(c) Insurance receivables*

The ageing of past due but not impaired insurance receivables at the reporting date are as follows:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| 1 - 180 days | **86** | 15 |
| More than 180 days | **24** | 59 |
| | **110** | 74 |

### *(II) Impaired loans and investments*

*(a) Loan classification*

The Group classifies its loans in accordance with the regulatory guidelines and internal loan classification policies. Performing loans are categorized as Grades 1 to 6 while non-performing loans are categorised as Grades 7 to 9, based on the following guidelines:

- Grades 1 to 5 - Payment of principal and interests are up-to-date and timely repayment of outstanding credit facilities is in no doubt.
- Grade 6 - Indicate that credit facilities exhibit potential weakness that, if not corrected in a timely manner, may adversely affect future repayments.
- Grade 7 - Timely repayment and/or settlement is at risk. Well-defined weakness is evident.
- Grade 8 - Full repayment and/or settlement is improbable.
- Grade 9 - The outstanding debt is regarded as uncollectible and little or nothing can be done to recover the debt.

*(b) Loans with renegotiated terms*

Loans with renegotiated terms refer to one where the original contractual terms and conditions have been modified upon mutual agreement between the Group and the borrower on commercial grounds due to temporary financial difficulties, corporate restructuring or other events.

*(c) Allowances for non-performing financial assets*

(i) Allowances for loans and receivables

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan and receivable portfolios. Allowances for loans and factoring receivables comprise specific allowances as well as collective allowances. Specific allowance is established when the present value of future recoverable cash flows of the impaired loan and receivable are lower than the carrying value of the loans and receivables. Assessment for impairment of loan and receivable is conducted on a case-by-case basis. For collective loss allowance, this is provided on the remaining loan and receivables which are grouped according to their risk characteristics and collectively assessed taking into account the historical loss experience on such loans and receivables.

## 37. Financial and insurance risk management (cont'd)

*Credit risk (cont'd)*

### *(II) Impaired loans and investments (cont'd)*

*(c) Allowances for non-performing financial assets (cont'd)*

(ii) Allowances for investments

The Group establishes an allowance for impairment losses of investments that represents its estimate of incurred impairment in its investment portfolios. At each balance sheet date, Management assesses whether there is objective evidence that an investment is impaired. In the case of an equity investment classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered an indicator that the investment is impaired. If such evidence exists, the cumulative loss measured as the difference between the acquisition cost net of any principal repayments and current fair value, less any impairment loss on that investment previously recognised in profit or loss, is removed from the fair value reserve within equity and recognised in profit or loss. Impairment losses recognised in profit or loss on available-for-sale equity investments are not reversed through profit or loss. Any subsequent increase in the fair value is recognised in the fair value reserve within equity and the accumulated balance is included in profit or loss when such equity investments are disposed of.

*(d) Write-off policy*

The Group writes off a loan or a receivable balance (and any related allowances for impairment losses) when the Group determines that the loans/receivables/investments are uncollectible. This determination is reached when there is no realisable tangible collateral securing the account, and all feasible avenues of recovery have been exhausted.

*(e) Upgrading of non-performing loan*

The loan can only be upgraded after a reasonable period (typically six months) of regular payments under the restructured terms.

*(f) Impairment losses*

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired loans, advances, hire purchase and leasing by risk grade:

| | Loans, advances, hire purchase and leasing receivables | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Gross $'000 | Net $'000 | Gross $'000 | Net $'000 |
| **Group** | | | | |
| Grades 1 to 6 | **-** | **-** | - | - |
| Grade 7 | **215** | **98** | 127 | 65 |
| Grade 8 | **4,163** | **2,668** | 6,306 | 1,866 |
| Grade 9 | **7,408** | **1,287** | 2,081 | 444 |
| | **11,786** | **4,053** | 8,514 | 2,375 |

## 37. Financial and insurance risk management (cont'd)

*Credit risk (cont'd)*

### *(II) Impaired loans and investments (cont'd)*

*(f) Impairment losses (cont'd)*

| | Loans, advances, hire purchase and leasing receivables | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Gross $'000 | Net $'000 | Gross $'000 | Net $'000 |
| **Company** | | | | |
| Grades 1 to 6 | **-** | **-** | - | - |
| Grade 7 | **-** | **-** | - | - |
| Grade 8 | **1,340** | **150** | 2,538 | 1,757 |
| Grade 9 | **4,282** | **1,287** | 2,081 | 444 |
| | **5,622** | **1,437** | 4,619 | 2,201 |

### *(III) Collateral*

The Group holds collateral against loans and advances to clients in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of the fair value are based on the value of collateral at the time of lending and generally are not updated except when the loan is individually assessed as impaired. Generally, collateral is not held against the Group's investment securities, and no such collateral was held at 31 December 2012 or 2011.

An estimate fair value of collateral and other security enhancements held against financial assets is shown below:

| | Loans, advances, hire purchase and leasing receivables | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| **Against individually impaired** | | | | |
| Equipment | **121** | 330 | **23** | 263 |
| | **121** | 330 | **23** | 263 |
| **Against past due but not impaired** | | | | |
| Accounts receivable | **-** | 79 | **-** | - |
| Fixed/cash deposits | **250** | - | **250** | - |
| Vessels | **13,500** | 1,448 | **13,500** | 1,448 |
| Equipment | **33** | 505 | **-** | - |
| Shares | **660** | - | **660** | - |
| | **14,443** | 2,032 | **14,410** | 1,448 |

## 37. Financial and insurance risk management (cont'd)

*Credit risk (cont'd)*

### *(III) Collateral (cont'd)*

| | Loans, advances, hire purchase and leasing receivables | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| **Against neither past due nor impaired** | | | | |
| Accounts receivable | **285** | 4,812 | **285** | 824 |
| Fixed/cash deposits | **367** | 1,220 | **367** | 1,220 |
| Properties | **60,735** | 36,100 | **60,735** | 36,100 |
| Equipment | **48,760** | 51,532 | **10,744** | 22,067 |
| Shares | **6,500** | 6,330 | **6,500** | 6,330 |
| Vessels | **65,798** | 48,036 | **65,798** | 48,036 |
| | **182,445** | 148,030 | **144,429** | 114,577 |
| | **197,009** | 150,392 | **158,862** | 116,288 |

### *(IV) Concentration of credit risk*

The Group monitors concentration of credit risk by sectors. An analysis of concentrations of credit risk of loans and investments at the reporting date is shown below:

| | Loans, advances, hire purchase and leasing receivables | | Investments | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | |
| **Concentration by sector** | | | | |
| Manufacturing | **116,711** | 90,833 | **1,499** | 1,997 |
| Services | **33,177** | 49,900 | **11,678** | 23,268 |
| Holding and investment companies | **13,675** | 16,270 | **593** | 963 |
| Property | **-** | - | **21,907** | 15,336 |
| Multi-industry | **-** | - | **3,999** | 5,686 |
| Others | **235** | 21 | **5,515** | 5,485 |
| Carrying amount | **163,798** | 157,024 | **45,191** | 52,735 |
| | | | | |
| **Company** | | | | |
| **Concentration by sector** | | | | |
| Manufacturing | **74,347** | 57,537 | **1,498** | 1,497 |
| Services | **25,409** | 39,007 | **5,607** | 5,082 |
| Holding and investment companies | **13,675** | 16,270 | **-** | - |
| Property | **-** | - | **7,423** | - |
| Others | **235** | 21 | **-** | - |
| Carrying amount | **113,666** | 112,835 | **14,528** | 6,579 |

# Notes to the Financial Statements

## 37. Financial and insurance risk management (cont'd)

*Credit risk (cont'd)*

### *(IV) Concentration of credit risk (cont'd)*

The concentration of credit risk of factoring receivables at the reporting date is shown below:

| | Factoring receivables | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| **Concentration by sector** | | | | |
| Manufacturing | **128,070** | 91,108 | **12,643** | 13,152 |
| Services | **47,500** | 65,304 | **9,729** | 8,103 |
| Holding and investment companies | **225** | 125 | **225** | 125 |
| Property | **728** | 68 | **728** | 68 |
| Others | **1,177** | 2,664 | **1,177** | 2,664 |
| Carrying amount | **177,700** | 159,269 | **24,502** | 24,112 |

The maximum exposure to credit risk for loans, advances, hire purchase and leasing receivables at the reporting date by geographical region was:

| | Loans, advances, hire purchase and leasing receivables | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Singapore | **101,161** | 84,891 | **101,161** | 84,790 |
| Southeast Asia | **50,132** | 44,088 | **-** | - |
| Rest of Asia | **2,813** | 18,896 | **2,813** | 18,896 |
| Others | **9,692** | 9,149 | **9,692** | 9,149 |
| | **163,798** | 157,024 | **113,666** | 112,835 |

The maximum exposure to credit risk for factoring receivables at the reporting date by geographical region was:

| | Factoring receivables | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Singapore | **24,502** | 24,112 | **24,502** | 24,112 |
| Southeast Asia | **153,198** | 135,157 | **-** | - |
| | **177,700** | 159,269 | **24,502** | 24,112 |

## 37. Financial and insurance risk management (cont'd)

*Credit risk (cont'd)*

### *(IV) Concentration of credit risk (cont'd)*

The maximum exposure to credit risk for investments at the reporting date by geographical region was:

| | Investments | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **2012** | **2011** | **2012** | **2011** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Singapore | **36,161** | 35,352 | **10,683** | 2,734 |
| Southeast Asia | **3,849** | 3,847 | **3,844** | 3,844 |
| Rest of Asia | **1,146** | 5,832 | **-** | - |
| Others | **4,035** | 7,704 | **1** | 1 |
| | **45,191** | 52,735 | **14,528** | 6,579 |

### *Interest rate risk*

In carrying out its lending activities, the Group strives to meet client demands for products with various interest rate structures and maturities. Sensitivity to interest rate movements arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. As interest rates and yield curves change over time, the size and nature of these mismatches may result in a loss or gain in earnings.

The Group attempts to minimise the interest rate risks wherever possible over the tenor of the financing. Floating rate lending is matched by floating rate borrowings. For fixed rate loans, these are matched by shareholders' funds and fixed rate borrowings and, if economically feasible, of the same tenor and amount. However, gaps may arise due to prepayments or delays in drawdown by clients.

On a minimum quarterly basis, the Group calculates its interest rate sensitivity gaps by time bands based on the earlier of contractual repricing date and maturity date. Where there is a gap arising out of a mismatch, the Group will use interest rate derivative instruments such as interest rate swaps, caps and floors to hedge its position.

*Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Group does not designate derivatives (interest rate cap and floor) as hedging instruments under the fair value accounting model. Therefore a change in interest rate at the reporting date would not affect the profit or loss.

*Sensitivity analysis for variable rate instruments*

As at 31 December 2012, it is estimated that a general increase of 100 basis point (bp) in interest rates would have increased the Group's profit after tax by approximately $273,000 and the Company's profit after tax by approximately $85,000 (2011: Group: $295,000; Company: $8,000). A decrease in 100bp in interest rates would have an equal but opposite effect. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

# Notes to the Financial Statements

## 37. Financial and insurance risk management (cont'd)

### *Liquidity risk*

Liquidity risk is the risk due to insufficient funds to meet contractual and business obligations in a timely manner. The Group manages and projects its cash flow commitments on a regular basis and this involves monitoring the concentration of funding maturity at any point in time and ensuring that there are committed credit lines from banks for its funding requirements.

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

| | Carrying amount $'000 | Contractual cash flows $'000 | 6 months or less $'000 | 6-12 months $'000 | 1-2 years $'000 | 2-5 years $'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2012** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | **11,698** | **11,698** | **11,698** | **-** | **-** | **-** |
| Insurance payables | **3,675** | **3,675** | **3,675** | **-** | **-** | **-** |
| Interest-bearing borrowings | **249,926** | **253,211** | **193,865** | **15,948** | **31,023** | **12,375** |
| Letters of credit | **-** | **3,052** | **3,052** | **-** | **-** | **-** |
| Bankers guarantee | **-** | **2,245** | **2,245** | **-** | **-** | **-** |
| | **265,299** | **273,881** | **214,535** | **15,948** | **31,023** | **12,375** |
| **2011** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | 13,103 | 13,103 | 13,103 | - | - | - |
| Insurance payables | 2,764 | 2,764 | 2,764 | - | - | - |
| Interest-bearing borrowings | 215,367 | 218,207 | 172,216 | 11,492 | 29,589 | 4,910 |
| Letters of credit | - | 3,484 | 3,484 | - | - | - |
| Bankers guarantee | - | 2,758 | 2,758 | - | - | - |
| | 231,234 | 240,316 | 194,325 | 11,492 | 29,589 | 4,910 |
| **Company** | | | | | | |
| **2012** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | **7,861** | **7,861** | **7,861** | **-** | **-** | **-** |
| Interest-bearing borrowings | **131,022** | **132,878** | **90,449** | **10,989** | **23,066** | **8,374** |
| Letters of credit | **-** | **512** | **512** | **-** | **-** | **-** |
| | **138,883** | **141,251** | **98,822** | **10,989** | **23,066** | **8,374** |
| **2011** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | 18,917 | 18,917 | 18,917 | - | - | - |
| Interest-bearing borrowings | 145,629 | 147,640 | 113,668 | 7,283 | 24,241 | 2,448 |
| Letters of credit | - | 275 | 275 | - | - | - |
| | 164,546 | 166,832 | 132,860 | 7,283 | 24,241 | 2,448 |

## 37. Financial and insurance risk management (cont'd)

### *Currency risk*

The Group operates in Southeast Asia with dominant operations in Singapore, Indonesia, Malaysia and Thailand. Entities in the Group also transact in currencies other than their respective functional currencies ("foreign currencies") such as Singapore Dollar ("SGD"), United States Dollar ("USD"), Australian Dollar ("AUD"), Sterling Pound ("GBP"), Indonesia Rupiah ("IDR"), Malaysian Ringgit ("RM"), and Thai Baht ("THB").

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is exposed to foreign currency risk on investments, loans, advances and factoring receivables and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities. The currencies giving rise to this risk are primarily USD, THB, GBP, AUD and SGD. If necessary, the Group may use derivative financial instruments to hedge its foreign currency risk.

Interest-bearing borrowings are denominated in currencies that match cashflows generated by the underlying operations of the Group, primarily USD, AUD, THB, IDR and RM. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when necessary to address short term imbalances.

The Group's investments in foreign subsidiaries and associates are not hedged as these currency positions are considered to be non-monetary and long-term in nature.

The Group's and Company's exposures to major foreign currency risks are as follows:

| | USD<br>$'000 | THB<br>$'000 | GBP<br>$'000 | AUD<br>$'000 | SGD<br>$'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2012** | | | | | |
| Loans & advances, trade and other receivables | 38,352 | - | 1,530 | - | - |
| Other investments | 27 | 3,847 | 593 | 438 | - |
| Cash and cash equivalents | 1,197 | 5 | 10 | 8 | - |
| Other financial assets | 30 | - | - | - | - |
| Trade and other payables | (610) | - | - | (1) | (11,404) |
| Interest-bearing borrowings | (38,255) | - | (624) | (1,218) | - |
| Other financial liabilities | (43) | - | - | - | - |
| **Net currency exposure** | **698** | **3,852** | **1,509** | **(773)** | **(11,404)** |

## 37. Financial and insurance risk management (cont'd)

*Currency risk (cont'd)*

| | USD $'000 | THB $'000 | GBP $'000 | AUD $'000 | SGD $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2011** | | | | | |
| Loans & advances, trade and other receivables | 36,550 | - | 60 | 15,928 | - |
| Other investments | 218 | 3,844 | 963 | 457 | - |
| Cash and cash equivalents | 1,260 | 4 | 17 | 1,175 | - |
| Other financial assets | 105 | - | - | - | - |
| Trade and other payables | (243) | - | - | (1,175) | (11,587) |
| Interest-bearing borrowings | (36,100) | - | - | (17,024) | - |
| Other financial liabilities | (74) | - | - | - | - |
| **Net currency exposure** | 1,716 | 3,848 | 1,040 | (639) | (11,587) |

| | USD $'000 | THB $'000 | RM $'000 | GBP $'000 | AUD $'000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **2012** | | | | | |
| Loans & advances, trade and other receivables | **38,820** | **18** | **88** | **601** | **-** |
| Other investments | **-** | **3,844** | **-** | **-** | **-** |
| Cash and cash equivalents | **654** | **5** | **-** | **10** | **8** |
| Trade and other payables | **(549)** | **(1)** | **-** | **-** | **(1)** |
| Interest-bearing borrowings | **(38,256)** | **-** | **-** | **(624)** | **(1,218)** |
| **Net currency exposure** | **669** | **3,866** | **88** | **(13)** | **(1,211)** |
| **2011** | | | | | |
| Loans & advances, trade and other receivables | 37,143 | 18 | 75 | - | 17,389 |
| Other investments | - | 3,844 | - | - | - |
| Cash and cash equivalents | 305 | 4 | - | 17 | 1,175 |
| Trade and other payables | (239) | - | - | (41) | (1,175) |
| Interest-bearing borrowings | (36,100) | - | - | - | (17,024) |
| **Net currency exposure** | 1,109 | 3,866 | 75 | (24) | 365 |

## 37. Financial and insurance risk management (cont'd)

***Currency risk (cont'd)***

*Sensitivity analysis*

A 10 percent strengthening of Singapore dollar against the following currencies at the reporting date would have increased (decreased) profit or loss after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10 percent weakening of Singapore dollar against the following currencies would have had the equal but opposite effect on the basis that all other variables remain constant.

| | Group | | Company | |
|---|---|---|---|---|
| | **Equity $'000** | **Profit or loss $'000** | **Equity $'000** | **Profit or loss $'000** |
| **31 December 2012** | | | | |
| USD | **(2)** | **(56)** | **-** | **(55)** |
| THB | **(385)** | **-** | **(384)** | **(2)** |
| RM | **-** | **-** | **-** | **(7)** |
| GBP | **(59)** | **(76)** | **-** | **1** |
| AUD | **(44)** | **101** | **-** | **101** |
| SGD | **1,140** | **-** | **-** | **-** |
| **31 December 2011** | | | | |
| USD | (21) | (125) | - | (92) |
| THB | (385) | - | (384) | (2) |
| RM | - | - | - | (6) |
| GBP | (96) | (6) | - | 2 |
| AUD | (46) | 90 | - | (30) |
| SGD | 1,159 | - | - | - |

***Equity price risk***

The Group has equity interests in private companies as well as quoted equity shares which are subject to market risks such as fluctuations in market prices, economic risks, credit default risks and investment risks inherently arising from the nature of the venture capital business activities.

The Group's venture capital investments are both internally and externally managed. The internally managed venture capital investments are predominantly investments that the Group is looking to divest. For externally managed venture capital investments, the Group has representatives in the Investment Committee of the Fund Manager that makes investment and divestment decisions. The Fund Manager has established policies and procedures to monitor and control its investments and divestments.

Investments in equity securities arose mainly from structured finance activities and they relate to those financial instruments in which embedded derivatives either in the form of the options or warrants are attached. Upon the maturity of the derivatives, the options or warrants are exercised and converted into equity with the moratorium period attached. As such, the Group has to hold these equities until the expiry of the moratorium before divesting. The Group has established policies and procedures to monitor and control its divestments.

## 37. Financial and insurance risk management (cont'd)

***Equity price risk (cont'd)***

For investments under the Insurance Fund, the Group has asset allocation guidelines which are reviewed periodically by the management and the Board. Under the asset allocation guidelines, limits are set in place for various asset classes such as equities, bonds and fixed/cash deposits.

*Sensitivity analysis - equity price risk*

For other investments carried at fair value, a 5 percent increase in the underlying equity prices at the reporting date would have increased (decreased) equity and profit or loss after tax by the amounts shown below:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Equity | **549** | 228 | **459** | 59 |
| Profit or loss | **7** | 3 | **-** | 3 |

A 5 percent decrease in the underlying equity prices at the reporting date would have had the equal but opposite effect to the amounts shown above.

***Operational risk***

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost of effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

Compliance with Group standards is supported by risk based plan approved by the Audit Committee on an annual basis and carried out by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, and reported to the Audit Committee on a periodic basis.

The Compliance Unit of the Group updates management and the Board of Directors on the changes and development in the laws and regulation and assists Management to check on the Group's compliance of the limits set by the Risk Management guidelines.

## 37. Financial and insurance risk management (cont'd)

***Insurance contract risk***

*Underwriting risk*

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting insurance pricing and conditions of insurance or reinsurance cover.

The principal underwriting risk to which the Group is exposed is credit risk in connection with its credit insurance and bond and guarantee underwriting activities. Management has established underwriting processes and limits to manage this risk including performing credit reviews of its customers and obtaining cash collateral as security where considered necessary.

*Pricing risk*

The underwriting function carries out qualitative and quantitative risk assessments on all buyers and clients before deciding on an approved credit limit. Policies in riskier markets may be rejected or charged at a higher premium rate accompanied by stricter terms and conditions to commensurate the risks.

*Concentration risk*

Concentration limits are set to avoid heavy concentration within a specific industry or country. Maximum limits are set for buyer credit limits and guarantee facility limits and higher limits require special approval. There is also monthly monitoring and reporting of any heavy concentration of risk exposure towards any industry, country, buyer and client limits. Buyer credit limits and client facility limits are reviewed on a regular basis to track any deterioration in their financial position that may result in a loss to the Group.

The main exposures of the Group's credit insurance contracts are to the electronics, wholesale and retail trade sectors. For bond and guarantee insurance contracts, the property and construction sectors contribute to a larger proportion of the Group's risk exposure. The Group does not have any significant concentration of risk to customers in countries outside of Singapore.

*Reinsurance outwards*

The Group participates in reinsurance treaties to cede risks to its reinsurers, which are internationally established firms with credit ratings and reviewed by the Board. Under the treaties, the Group undertakes to cede to its reinsurers between 50% to 70% of its total written premium as well as the same proportion of corresponding losses for 2012. Risks undertaken which do not fall within the treaty scope of cover are ceded to reinsurers on a facultative basis.

*Counterparty and concentration risk*

For investments in fixed income securities, the Group invests primarily in securities issued by the Singapore Government, Statutory Boards and high grade corporate bonds. These corporate bonds are approved by two directors. The Group has put in place investment, counterparty and foreign currency limits in relation to its investment activities to ensure that there is no over-concentration to any one class of investment.

*Recognised financial assets*

The fair value of quoted equity securities is their last bid price at the reporting date. The fair values of unquoted corporate bonds, unquoted unit trusts and money market funds are their indicative prices at the reporting date.

## 37. Financial and insurance risk management (cont'd)

***Insurance contract risk (cont'd)***

*Claims development in respect of credit and bond and guarantee insurance business*

Claim development tables are disclosed to allow comparison of the outstanding claim provisions with those of prior years. In effect, the tables highlight the Group's ability to provide an estimate of the total value of claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year-ends. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. The lower part of the table provides a reconciliation of the total provision included in the statement of financial position and the estimated cumulative claims.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Group believes that the estimated total claims outstanding as at end of 2012 are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

The analysis of claims development has been performed on a gross basis before accounting for reinsurance and on a net basis after accounting for reinsurance.

The claims information for the accident years below is based on the following:

Accident year:

- 2004 - 12 months ended 31 December 2004
- 2005 - 12 months ended 31 December 2005
- 2006 - 12 months ended 31 December 2006
- 2007 - 12 months ended 31 December 2007
- 2008 - 12 months ended 31 December 2008
- 2009 - 12 months ended 31 December 2009
- 2010 - 12 months ended 31 December 2010
- 2011 - 12 months ended 31 December 2011
- 2012 - 12 months ended 31 December 2012

## 37. Financial and insurance risk management (cont'd)

***Insurance contract risk (cont'd)***

*Claims development in respect of credit and bond and guarantee insurance business (cont'd)*

Analysis of claims development – net of reinsurance basis

**Total business**
**Net loss development tables as at 31 December 2012**
**Unit: $'000s**

| **Estimate of cumulative claims** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Accident year** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **Total** |
| At end of accident year | 1,551 | 1,899 | 2,594 | 998 | 1,464 | 616 | 227 | 275 | |
| One year later | 996 | 1,392 | 2,405 | 1,199 | 1,465 | 459 | 314 | | |
| Two years later | 1,013 | 4,377 | 1,690 | 1,132 | 1,151 | 459 | | | |
| Three years later | 520 | 3,750 | 1,014 | 520 | 863 | | | | |
| Four years later | 515 | 3,750 | 743 | 519 | | | | | |
| Five years later | 514 | 3,750 | 732 | | | | | | |
| Six years later | 514 | 3,525 | | | | | | | |
| Seven years later | 514 | | | | | | | | |
| Current estimate of ultimate claims | 514 | 3,525 | 732 | 519 | 863 | 459 | 314 | 275 | 7,201 |
| Cumulative payments | (514) | (3,525) | (732) | (519) | (863) | (7) | (12) | (70) | (6,242) |
| Net estimate of outstanding claim liability | - | - | - | - | - | 452 | 302 | 205 | 959 |
| Unallocated loss adjustment expenses | - | - | - | - | - | 50 | 33 | 21 | 104 |
| Effect of discounting | - | - | - | - | - | (2) | (1) | - | (3) |
| Best estimate of outstanding claim liability | - | - | - | - | - | 500 | 334 | 226 | 1,060 |
| Provision for adverse deviation | | | | | | | | | 160 |
| Net provision for insurance claims (Note 11) | | | | | | | | | **1,220** |

## 37. Financial and insurance risk management (cont'd)

***Insurance contract risk (cont'd)***

*Claims development in respect of credit and bond and guarantee insurance business (cont'd)*

Analysis of claims development – net of reinsurance basis (cont'd)

**Total business**
**Net loss development tables as at 31 December 2011**
**Unit: $'000s**

| **Estimate of cumulative claims** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Accident year** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **Total** |
| At end of accident year | 2,012 | 1,462 | 1,837 | 2,484 | 859 | 1,344 | 588 | 227 | |
| One year later | 1,737 | 970 | 1,283 | 2,266 | 1,079 | 1,437 | 459 | | |
| Two years later | 1,583 | 980 | 4,237 | 1,570 | 1,103 | 1,151 | | | |
| Three years later | 2,328 | 520 | 3,750 | 1,014 | 520 | | | | |
| Four years later | 2,303 | 515 | 3,750 | 743 | | | | | |
| Five years later | 2,280 | 514 | 3,750 | | | | | | |
| Six years later | 2,280 | 514 | | | | | | | |
| Seven years later | 2,280 | | | | | | | | |
| Current estimate of ultimate claims | 2,280 | 514 | 3,750 | 743 | 520 | 1,151 | 459 | 227 | 9,644 |
| Cumulative payments | (2,280) | (514) | (3,525) | (743) | (518) | (863) | (7) | (15) | (8,465) |
| Net estimate of outstanding claim liability | - | - | 225 | - | 2 | 288 | 452 | 212 | 1,179 |
| Unallocated loss adjustment expenses | - | - | 11 | - | - | 32 | 50 | 21 | 114 |
| Effect of discounting | - | - | - | - | - | (1) | (2) | (1) | (4) |
| Best estimate of outstanding claim liability | - | - | 236 | - | 2 | 319 | 500 | 232 | 1,289 |
| Provision for adverse deviation | | | | | | | | | 193 |
| Net provision for insurance claims (Note 11) | | | | | | | | | 1,482 |

## 37. Financial and insurance risk management (cont'd)

### *Estimation of fair value*

*Investments in equity and debt securities*

The fair value of quoted equity securities is their last bid price at the reporting date. The fair values of unquoted corporate bonds, unquoted unit trusts and money market funds are their indicative prices at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

*Loans, advances, hire purchase, leasing and receivables*

The fair values of loans, advances, hire purchase, leasing and receivables that reprice within six months of reporting date are assumed to equate the carrying values. The fair values of fixed rate loans, advances, hire purchase, leasing and factoring receivables were calculated using discounted cash flow models based on the maturity of the loans. The discount rates applied in this exercise were based on the current interest rates of similar types of loans, advances, hire purchase, leasing and factoring receivables if these assets were performing at reporting date.

*Other financial assets and liabilities*

During the year, the Group and the Company granted a convertible loan to finance an executive condominium residential project in Singapore. The convertible loan contains an embedded equity conversion option and is expected to convert or mature in 2016. This has been classified as an available-for-sale financial asset. The fair value of this loan is classified as Level 2. Management has used a discounted cash flow technique in which the inputs were based on units sold and sales projections and development cost projections as at 31 December 2012. A discount rate of 5% was used to ascertain the fair value.

The notional amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values because of the short period of maturity.

The fair value of quoted equity securities is their last bid price at the reporting date. The fair values of the unquoted corporate bonds, unquoted unit trusts and money market funds are their indicative prices at the reporting date.

*Fair value hierarchy*

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

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

## 37. Financial and insurance risk management (cont'd)

***Estimation of fair value (cont'd)***

*Fair value hierarchy (cont'd)*

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2012** | | | | |
| Available-for-sale financial assets | | | | |
| - Equity securities | **1,867** | **-** | **1,810** | **3,677** |
| - Debt securities | **984** | **-** | **-** | **984** |
| - Convertible loan | **-** | **7,423** | **-** | **7,423** |
| Held-for-trading financial assets | **17** | **-** | **-** | **17** |
| | **2,868** | **7,423** | **1,810** | **12,101** |
| **2011** | | | | |
| Available-for-sale financial assets | | | | |
| - Equity securities | 1,024 | - | 3,264 | 4,288 |
| - Debt securities | 1,836 | - | - | 1,836 |
| Held-for-trading financial assets | 3 | - | - | 3 |
| | 2,863 | - | 3,264 | 6,127 |
| **Company** | | | | |
| **2012** | | | | |
| Available-for-sale financial assets | | | | |
| - Equity securities | **1,274** | **-** | **488** | **1,762** |
| - Convertible loan | **-** | **7,423** | **-** | **7,423** |
| | **1,274** | **7,423** | **488** | **9,185** |
| **2011** | | | | |
| Available-for-sale financial assets | | | | |
| - Equity securities | 61 | - | 1,177 | 1,238 |

Level 3 fair values relate to unquoted equity securities and funds carried at net asset value. As such, there is no other reasonably possible alternative input and assumptions that may have a significant effect on the Level 3 fair value measurements.

During the financial year ended 31 December 2012, there were no significant transfers between Level 1 and Level 2.

The following table shows a reconciliation from the beginning to the ending balances for the fair value measurements in level 3 of fair value hierarchy:

## 37. Financial and insurance risk management (cont'd)

### *Estimation of fair value (cont'd)*

*Fair value hierarchy (cont'd)*

| | Group $'000 | Company $'000 |
|---|---|---|
| **At 1 January 2012** | **3,264** | **1,177** |
| Addition | **350** | **-** |
| Redemption | **(1,231)** | **(600)** |
| Loss recognised in other comprehensive income | **(294)** | **(89)** |
| Loss recognised in profit or loss | **(279)** | **-** |
| **At 31 December 2012** | **1,810** | **488** |
| | | |
| **At 1 January 2011** | 4,262 | 1,480 |
| Redemption | (166) | - |
| Provision utilised | 40 | - |
| Loss recognised in other comprehensive income | (860) | (303) |
| Loss recognised in profit or loss | (12) | - |
| **At 31 December 2011** | 3,264 | 1,177 |

### *Summary*

The aggregate net fair values of recognised financial assets and liabilities which are not carried at fair values in the statement of financial position as at 31 December are represented in the following table:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Carrying value $'000 | Fair value $'000 | Carrying value $'000 | Fair value $'000 |
| **Group** | | | | |
| **Financial assets** | | | | |
| Held-to-maturity investments | **27,246** | **27,272** | 36,165 | 36,237 |
| Unrecognised (gain) | | **(26)** | | (72) |
| | | | | |
| **Company** | | | | |
| **Financial assets** | | | | |
| Held-to-maturity investment | **1,499** | **1,501** | 1,497 | 1,497 |
| Unrecognised (gain) | | **(2)** | | - |

## 38. Accounting judgements and estimates

Management has assessed the development, selection and disclosure of the critical accounting policies and estimates, and the application of these policies and estimates.

The following are critical accounting judgements or estimates made by the management in applying accounting policies:

***Critical accounting judgements***

*Impairment losses on loans, advances, hire purchase, leasing and receivables*

The Group reviews the loan portfolio to assess impairment on a regular basis. To determine whether there is an impairment loss, the Group makes judgements as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows of the loan portfolio. The evidence may include observable data indicating adverse changes in the payment status of the borrowers or local economic conditions that correlate with defaults in the loan portfolio. The methodology and assumptions used for estimating the amount and timing of cash flows are reviewed regularly to reduce any differences between estimated and actual loss experience.

*Held-to-maturity financial assets*

The Group has the intention and ability to hold the debt securities, which include quoted and unquoted corporate bonds to maturity. These securities will be redeemed upon maturity and will not be subject to disposal prior to maturity.

If the Group fails to hold these debt securities to maturity other than for specific circumstances explained in FRS 39: Financial Instrument, it will be required to classify the whole class as available-for-sale. The debt securities would therefore be measured at fair value and not amortised cost. If the class of held-to-maturity debt securities is tainted, its carrying amount would increase by $26,000 (2011: $72,000) with a corresponding entry in the fair value reserves in equity.

***Critical accounting estimates***

*Provisions for unexpired risks and insurance claims*

Provisions for unexpired risks and insurance claims as at 31 December 2012 have been assessed by the approved actuary (Deloitte Consulting Pte Ltd) in accordance with local insurance regulatory requirements.

The description of the principal estimates and assumptions underlying the determination of provisions for unexpired risks and insurance claims and the impact of changes in these estimates and assumptions are discussed in the sensitivity analysis set out in sections I and II of this note.

The process of establishing the provision for insurance claims is described in section II of this note.

The sensitivity analysis has been performed on a gross basis before accounting for reinsurance and on a net basis after accounting for reinsurance.

## 38. Accounting judgements and estimates (cont'd)

***Critical accounting estimates (cont'd)***

Users of these financial statements should take note of the following:

(a) The sensitivity analysis in sections I and II is based upon the assumptions set out in the actuarial report issued to the Group by the approved actuary for the financial year ended 31 December 2012. The sensitivity analysis is subject to the reliance that the approved actuary has placed on management and limitations described in the report. One particular reliance is that the net sensitivity results assume that all reinsurance recoveries are receivable in full;

(b) The estimates and assumptions discussed are independent of each other. However, in practice, a combination of adverse and favourable changes can occur; and

(c) The sensitivity results are not intended to capture all possible outcomes. Significantly more adverse or favourable results are possible.

### I. Provision for unexpired risks - sensitivity analysis

The provision for unexpired risks is the higher of:

(a) The aggregate of the total best estimates of unexpired risk and the provision for adverse deviation ("PAD"); and

(b) Unearned premium reserves.

For short-term credit insurance policies, the provision for unexpired risks is based on the ultimate loss ratio for 2012 which is obtained from outstanding claim analysis. For bonds and guarantee insurance contracts, a simulation approach is used to project expected future losses. In the base scenario, the Group has selected default rate of 1.00% to 4.98% based on each bond category (2011: 1.25% to 6.12%).

The provision for unexpired risks includes a PAD which is intended to provide a 75% probability of adequacy for the provision for unexpired risks. The PAD assumption relied on the approved actuary's inputs. An allowance for future management expenses and claim handling costs is made.

Based on the current assumptions, the gross and net provisions for unexpired risks are as follows:

| | Net<br>$'000 | Gross<br>$'000 |
|---|---|---|
| **At 31 December 2012** | | |
| Estimated provision for unexpired risks under the base scenario | **4,089** | **11,864** |
| **At 31 December 2011** | | |
| Estimated provision for unexpired risks under the base scenario | 4,790 | 12,530 |

## 38. Accounting judgements and estimates (cont'd)

*Critical accounting estimates (cont'd)*

**I. Provision for unexpired risks - sensitivity analysis (cont'd)**

***Probability of default for bonds and guarantees***

Probability of default of bonds and guarantees is computed based on historical claims experience of the Group. Under the base scenario, the Group has selected different default rates ranging from a minimum of 1.00% to 4.98% based on each bond category. Increasing and decreasing the average default rates by 0.5%, the provision will be modified as follows:

| | High +0.5% | Low -0.5% | High +0.5% | Low -0.5% |
|---|---|---|---|---|
| | Net $'000 | | Gross $'000 | |
| Provision for unexpired risks | 5,476 | 4,007 | 13,470 | 11,865 |

***Recovery rate for bonds and guarantees***

Recovery rates for bonds and guarantees are computed based on published recovery rates from Moody's. Under the base scenario, the Group has allowed for recovery rate of 70% of the bond or guarantee value if it is called. Using rates of 77% or 63%, the provision for unexpired risks would change as follows:

| | High 77% | Low 63% | High 77% | Low 63% |
|---|---|---|---|---|
| | Net $'000 | | Gross $'000 | |
| Provision for unexpired risks | 4,015 | 4,837 | 11,865 | 11,865 |

***Claim handling expenses ("CHE")***

Allowance for CHE relates to the costs of administering outstanding claims until all claims are fully settled. CHE is computed based on 5% of expected future losses and maintenance expenses computed at 6% of the Group's unearned premium reserves for all classes of business. The effects of increasing and reducing CHE by 10% are presented below:

| | High +10% | Low -10% | High +10% | Low -10% |
|---|---|---|---|---|
| | Net $'000 | | Gross $'000 | |
| Provision for unexpired risks | 4,129 | 4,049 | 11,865 | 11,865 |

## 38. Accounting judgements and estimates (cont'd)

***Critical accounting estimates (cont'd)***

### I. Provision for unexpired risks - sensitivity analysis (cont'd)

***Provision for adverse deviation***

The actuary has assumed premium PAD of 25% to 30% under the base scenario. If the assumed PAD is increased or decreased by 10%, the resulting provision will be as follows:

| | High +10% | Low -10% | High +10% | Low -10% |
|---|---|---|---|---|
| | Net $'000 | | Gross $'000 | |
| Provision for unexpired risks | **4,164** | **4,026** | **11,865** | **11,865** |

### II. Provision for insurance claims - sensitivity analysis

***Process of establishing provision for insurance claims***

For short-term credit insurance contracts, the Group sets aside specific provisions based on actual claims notified by the policyholders. Each notified claim is assessed on a case-by-case basis with regards to the claim circumstances and information available from external sources. These specific provisions are reviewed and updated regularly as and when there are developments and are not discounted for the time value of money.

The Group closely monitors the relevant projects for which the bonds and guarantees are issued, and makes specific provisions should the Group be made aware of potential claim payments through its regular project monitoring.

Given the uncertainty in estimating the provision for insurance claims, it is likely that the actual outcome will be different from the provisions made based on internal provisioning. Accordingly, the Group engages an approved actuary to assess the adequacy of the Group's provision for insurance claims on an annual basis.

The reserving methodology and assumptions used by the approved actuary, which remain unchanged from prior year, are intended to produce a "best" estimate of the provision for insurance claims through the analysis of historical claims payment and recovery data to project future claims payment. The "best" estimate is intended to represent the mean value of the range of future outcomes of the claim costs. The provision for insurance claims is expressed in terms of the present value of the future claim costs.

For short-term credit insurance policies, claim development triangles are constructed using the historical number of paid claims. The chain ladder method is applied to the triangle to project the ultimate number of claims. Analysis of average cost per claim and reinsurance recovery rates is then performed to compute an average net cost per claim. The estimate of outstanding claims is then derived by combining these items.

The chain ladder method involves the analysis of historical claim number development factors and the selection of estimated development factors based on the historical pattern. The selected factors are then applied to the cumulative numbers of claims for each accident year, for which the data is not yet fully developed, to produce an estimated ultimate number of claims.

## 38. Accounting judgements and estimates (cont'd)

*Critical accounting estimates (cont'd)*

### II. Provision for insurance claims - sensitivity analysis (cont'd)

In estimating the provision for insurance claims, the actuary includes an allowance for claims handling expenses and maintenance cost which are intended to cover the costs of administering outstanding claims until all claims are fully settled.

The actuary's estimate for the provision for insurance claims is subject to uncertainty and variations of the actual and expected experience are to be expected. The inherent uncertainty is due to the fact that the ultimate claim cost is subject to the outcome of future events. Possible uncertainties include those related to the selection of models and assumptions, the statistical uncertainty, the general business and economic environment, and the impact of legislative reform. A PAD is therefore made to allow for uncertainty surrounding the estimation process and is intended to provide a 75% probability of adequacy for the provision for insurance claims. The PAD assumption relied on the actuary's inputs.

Based on the current assumptions, the gross and net provisions for insurance claims are as follows:

| | Net $'000 | Gross $'000 |
|---|---|---|
| **At 31 December 2012** | | |
| Estimated provision for insurance claims under the base scenario | **1,220** | **2,557** |
| **At 31 December 2011** | | |
| Estimated provision for insurance claims under the base scenario | 1,482 | 3,075 |

***Ultimate number of claims per million earned premiums in accident year 2012 for short-term credit insurance***

The ultimate number of claims is computed based on loss development triangles constructed using the number of paid claims from prior years. As the most recent accident years are relatively underdeveloped, an exposure-based method has been adopted to estimate the ultimate number of claims in these accident years.

In estimating the number of outstanding claims under the base scenario, the Company has assumed that there will be approximately 8 claims per million of earned premiums in accident years 2009, 2010, 2011and 2012. If the ultimate number of claims per million of earned premiums increases or decreases by one claim in the accident years 2009 to 2012, the corresponding gross and net provisions for insurance claims are set out as follows:

| | High +1 claim | Low -1 claim | High +1 claim | Low -1 claim |
|---|---|---|---|---|
| | Net $'000 | | Gross $'000 | |
| Provision for insurance claims | **1,346** | **1,094** | **2,822** | **2,292** |

## 38. Accounting judgements and estimates (cont'd)

***Critical accounting estimates (cont'd)***

### II. Provision for insurance claims - sensitivity analysis (cont'd)

***Average claim size for short-term credit insurance***

Analyses on average cost per claim and reinsurance recovery rates are performed to derive an average net cost per claim.

The Group has assumed an average claim size of $44,100 under the base scenario. If the average claim size is assumed to be $48,510 (High) and $39,690 (Low), the corresponding gross and net provisions for insurance claims will be as follows:

| | High $48,510 | Low $39,690 | High $48,510 | Low $39,690 |
|---|---|---|---|---|
| | Net $'000 | | Gross $'000 | |
| Provision for insurance claims | **1,335** | **1,105** | **2,799** | **2,315** |

***Claim handling expenses ("CHE")***

Allowance for CHE relates to the costs of administering outstanding claims until all claims are fully settled. CHE is computed based on 5% of incurred-but-not-reported claims and 2.5% of case reserves.

The effects of varying CHE by 10% (both upwards and downwards) are presented below:

| | High +10% | Low -10% | High +10% | Low -10% |
|---|---|---|---|---|
| | Net $'000 | | Gross $'000 | |
| Provision for insurance claims | **1,232** | **1,208** | **2,569** | **2,545** |

***Provision for adverse deviation***

Provision for insurance claims also includes a PAD which will provide a 75% probability of adequacy for the provision for insurance claims.

The Group has assumed a claim PAD of 15% to 20% under the base scenario. Increasing or decreasing the PAD by 10% results in changes in provision as follows:

| | High +10% | Low -10% | High +10% | Low -10% |
|---|---|---|---|---|
| | Net $'000 | | Gross $'000 | |
| Provision for insurance claims | **1,236** | **1,204** | **2,590** | **2,524** |

## 39. Operating segments

The Group has three reportable segments which relate to the Group's strategic business units. The strategic business units offer different products and services, and are managed separately. The reportable segment presentation is prepared based on the Group's management and internal reporting structure. As some of the activities of the Group are integrated, internal cost allocation has been made in preparing the segment information such as the Group's centralized support costs and funding costs. Inter-segment pricing where appropriate, is determined on an arm's length basis. The Group's CEO reviews the internal management reports on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments.

| | |
|---|---|
| Credit financing : | Credit financing encompasses commercial, alternative and structured finance businesses and focuses on providing services to corporate clients, mainly the small and medium-sized enterprises. The commercial services provided include factoring, accounts receivable financing, trade financing, mortgage financing, working capital, financing for overseas operations, hire purchase as well as participating in financing by SPRING and IES under LEFS and IF Scheme respectively. Where conventional forms of commercial finance are inadequate, alternative and structured financial solutions are offered to clients to address either equity or debt capital requirements. |
| Insurance : | The provision of credit insurance facilities to Singapore exporters and the issue of performance bonds and guarantees, domestic maid insurance and spa insurance for pre-paid packages. The segment includes holding of equity securities and bonds under the regulated Insurance Fund. |
| Private equity and other investments : | The provision of development capital in the form of mezzanine financing, convertible debt instruments and direct private equity investments. |

Total operating income comprises interest income, net earned premiums, fee and commission income and investment income. Performance is measured based on segment profit before income tax.

## 39. Operating segments (cont'd)

***Information about reportable segments***

| | Credit financing $'000 | Insurance $'000 | Private equity and other investments $'000 | Total $'000 |
|---|---|---|---|---|
| **2012** | | | | |
| ***Operating results*** | | | | |
| Total operating income | **33,442** | **7,363** | **1,881** | **42,686** |
| Reportable segment profit/(loss) before income tax | **8,931** | **3,208** | **(141)** | **11,998** |
| Net interest income | **19,604** | **-** | **-** | **19,604** |
| Net earned premium revenue | **-** | **3,781** | **-** | **3,781** |
| Non-interest income | **7,023** | **3,560** | **1,881** | **12,464** |
| Other material non-cash items | | | | |
| - Allowances for loan losses and impairment of other assets | **(2,197)** | **(24)** | **(834)** | **(3,055)** |
| - Depreciation and amortisation | **(1,464)** | **(124)** | **(415)** | **(2,003)** |
| ***Assets and liabilities*** | | | | |
| Reportable segment assets | **342,164** | **68,609** | **18,135** | **428,908** |
| Capital expenditure | **708** | **47** | **-** | **755** |
| Reportable segment liabilities | **255,568** | **19,919** | **5,292** | **280,779** |
| **2011** | | | | |
| ***Operating results*** | | | | |
| Total operating income | 29,666 | 5,885 | 420 | 35,971 |
| Reportable segment profit/(loss) before income tax | 6,272 | 3,047 | (488) | 8,831 |
| Net interest income | 16,911 | - | - | 16,911 |
| Net earned premium revenue | - | 2,842 | - | 2,842 |
| Non-interest income | 8,331 | 3,043 | 420 | 11,794 |
| Other material non-cash items | | | | |
| - (Allowances for)/reversal of loan losses and impairment of other assets | (4,296) | 51 | (372) | (4,617) |
| - Depreciation and amortisation | (1,658) | (220) | (284) | (2,162) |
| ***Assets and liabilities*** | | | | |
| Reportable segment assets | 310,259 | 68,063 | 11,113 | 389,435 |
| Capital expenditure | 311 | 101 | - | 412 |
| Reportable segment liabilities | 227,516 | 20,026 | 245 | 247,787 |

## 39. Operating segments (cont'd)

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

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| **Operating income** | | |
| Interest income | **26,765** | 21,949 |
| Net earned premium revenue | **3,781** | 2,842 |
| Fee and commission income | **8,776** | 9,571 |
| Investment income | **3,364** | 1,609 |
| **Total operating income for reportable segments** | **42,686** | 35,971 |
| | | |
| **Income statement** | | |
| Total profit or loss for reportable segments | **11,998** | 8,831 |
| **Consolidated profit before income tax** | **11,998** | 8,831 |
| | | |
| **Non-interest income** | | |
| Total non-interest income for reportable segments | **12,464** | 11,794 |
| **Consolidated non-interest income** | **12,464** | 11,794 |
| | | |
| **Assets** | | |
| Total assets for reportable segments | **428,908** | 389,435 |
| Other unallocated amounts | **3,693** | 4,085 |
| **Consolidated assets** | **432,601** | 393,520 |
| | | |
| **Liabilities** | | |
| Total liabilities for reportable segments | **280,779** | 247,787 |
| Other unallocated amounts | **2,992** | 2,066 |
| **Consolidated liabilities** | **283,771** | 249,853 |

## 39. Operating segments (cont'd)

### *Geographical segments*

Geographical segments are analysed by four principal geographical areas. *Singapore, Southeast Asia* and *Others* are the major markets for credit financing and insurance activities. The *Rest of Asia* and *Others* are the markets for private equity and other investment activities.

In presenting information on the basis of geographical segments, segment operating income is based on the geographical location of the clients. Segment assets are based on the geographical location of the assets.

**Geographical information**

| | Operating income $'000 | Non-current assets $'000 | Total assets $'000 |
|---|---|---|---|
| **2012** | | | |
| Singapore | **16,697** | **16,586** | **223,864** |
| Southeast Asia | **20,998** | **2,666** | **193,132** |
| Rest of Asia | **-** | **-** | **709** |
| Others | **4,991** | **-** | **14,896** |
| | **42,686** | **19,252** | **432,601** |
| **2011** | | | |
| Singapore | 15,869 | 17,179 | 198,544 |
| Southeast Asia | 16,689 | 3,037 | 163,407 |
| Rest of Asia | 311 | - | 1,376 |
| Others | 3,102 | 922 | 30,193 |
| | 35,971 | 21,138 | 393,520 |

# Additional Information
31 December 2012

## INTERESTED PERSON TRANSACTIONS

For the financial year ended 31 December 2012, all interested person transactions, as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited, entered into by the Group or by the Company were less than $100,000. Hence, no disclosure is required in the Annual Report.

## MATERIAL CONTRACTS INVOLVING DIRECTORS' INTEREST

Saved as disclosed in the notes to the financial statements, there were no material contracts entered into by the Group involving the interest of the directors.

# Statistics of Shareholdings

As at 6 March 2013

## SHARE CAPITAL

| | | |
|---|---|---|
| Issued and Paid-up Share Capital | : | $88,278,936 |
| Number of Shares | : | 150,387,866 |
| Class of Shares | : | ordinary shares |
| Voting Rights | : | one vote per share |

## ANALYSIS OF SHAREHOLDINGS

| Range of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 - 999 | 116 | 2.92 | 38,035 | 0.03 |
| 1,000 - 10,000 | 2,766 | 69.65 | 10,524,963 | 7.00 |
| 10,001 - 1,000,000 | 1,080 | 27.20 | 42,026,095 | 27.94 |
| 1,000,001 and above | 9 | 0.23 | 97,798,773 | 65.03 |
| Total | 3,971 | 100.00 | 150,387,866 | 100.00 |

## TOP TWENTY SHAREHOLDERS

| No. | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 1 | Phillip Securities Pte Ltd | 61,651,470 | 40.99 |
| 2 | SMRT Road Holdings Ltd | 10,309,312 | 6.86 |
| 3 | Lee Boon Leong | 6,824,400 | 4.54 |
| 4 | United Overseas Bank Nominees Pte Ltd | 6,104,386 | 4.06 |
| 5 | DBS Nominees Pte Ltd | 5,715,468 | 3.80 |
| 6 | OCBC Nominees Singapore Pte Ltd | 2,622,157 | 1.74 |
| 7 | Ng Chit Tong Peter | 2,173,880 | 1.45 |
| 8 | Lee Soon Kie | 1,386,900 | 0.92 |
| 9 | Tan Soon Lin | 1,010,800 | 0.67 |
| 10 | Citibank Nominees Singapore Pte Ltd | 906,870 | 0.60 |
| 11 | Lai Weng Kay | 592,000 | 0.39 |
| 12 | Ng Soh Lian | 552,000 | 0.37 |
| 13 | Boon Kok Hup | 547,660 | 0.36 |
| 14 | Kwah Thiam Hock | 508,200 | 0.34 |
| 15 | Tan Li Cheng nee Lee | 493,680 | 0.33 |
| 16 | Teo Yew Hock | 413,260 | 0.27 |
| 17 | HSBC (Singapore) Nominees Pte Ltd | 404,140 | 0.27 |
| 18 | Wee Joo Guan Robert | 403,414 | 0.27 |
| 19 | Quek Hwee Inn | 392,000 | 0.26 |
| 20 | Goh Chai Lam or Teng Siew Yeok | 369,050 | 0.25 |
| | Total | 103,381,047 | 68.74 |

# Statistics of Shareholdings

As at 6 March 2013

## SHAREHOLDING HELD IN HANDS OF PUBLIC

Based on information available to the Company as at 6 March 2013, approximately 50.7% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited is complied with.

## SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as recorded in the Register of Substantial Shareholders as at 6 March 2013

| | No. of Shares | | | |
|---|---|---|---|---|
| **Substantial Shareholder** | **Direct Interest** | **Deemed Interest** | **Total Interest** | **%** |
| Phillip Assets Pte. Ltd. | 60,761,657[1] | - | 60,761,657 | 40.40 |
| Lim Hua Min | - | 60,761,657[2] | 60,761,657 | 40.40 |
| SMRT Road Holdings Ltd | 10,309,312 | - | 10,309,312 | 6.86 |
| Temasek Holdings (Private) Limited | - | 10,309,312[3] | 10,309,312 | 6.86 |

**Notes:**

1 Deposited with the Depository Agent, Phillip Securities Pte. Ltd.

2 Mr Lim Hua Min is deemed to have an interest in the 60,761,657 shares held by Phillip Assets Pte. Ltd.

3 Temasek Holdings (Private) Limited is deemed to have an interest in the 10,309,312 shares held by SMRT Road Holdings Ltd.

# Notice Of Annual General Meeting

**IFS CAPITAL LIMITED**
(Incorporated in the Republic of Singapore)
Company Registration No. 198700827C

**NOTICE IS HEREBY GIVEN** that the Twenty-Sixth (26th) Annual General Meeting of IFS Capital Limited (the "**Company**") will be held at the IFS Boardroom, 7 Temasek Boulevard #10-01 Suntec Tower One, Singapore 038987, on Monday, 22 April 2013 at 2.30 p.m. for the following purposes:

**ORDINARY BUSINESS**

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

2. To approve the payment of a first and final one-tier tax exempt ordinary cash dividend of 2 cents per share for the financial year ended 31 December 2012. **(Resolution 2)**

3. To approve the Directors' fees of S$256,000 (2011: S$268,963) for the financial year ended 31 December 2012. **(Resolution 3)**

4. To re-elect the following Directors retiring in accordance with Article 91 of the Company's Articles of Association:
   (i) Mr Lim Hua Min **(Resolution 4)**
   (ii) Mr Kwah Thiam Hock **(Resolution 5)**

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

**SPECIAL BUSINESS**

To consider, and if thought fit, to pass the following Resolution 7 which will be proposed as Ordinary Resolution:

6. That authority be and is hereby given to the Directors to:

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

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

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

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

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50 per cent. of the total number of issued shares in the capital of the Company excluding treasury shares (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 20 per cent. of the total number of issued shares in the capital of the Company excluding treasury shares (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited ("**SGX-ST**")) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of issued shares shall be based on the total number of issued shares in the capital of the Company excluding treasury shares at the time this Resolution is passed, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

(ii) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and

(4) (unless revoked or varied by the Company in General Meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier. **(Resolution 7)**

## OTHER BUSINESS

7. To transact any other business that may be transacted at an Annual General Meeting.

## NOTICE OF BOOKS CLOSURE AND DIVIDEND PAYMENT DATE

**NOTICE IS HEREBY GIVEN** that, subject to the approval of the Shareholders for the proposed first and final dividend at the Annual General Meeting, the Share Transfer Books and the Register of Members of the Company will be closed on 30 April 2013, for the purpose of determining shareholders' entitlements to the proposed first and final one-tier tax exempt ordinary cash dividend for the year ended 31 December 2012.

Duly completed and stamped transfers together with all relevant documents of or evidencing title received by the Company's Share Registrar, M & C Services Private Limited at 112 Robinson Road #05-01, Singapore 068902 up to the close of business at 5.00 p.m. on 29 April 2013 will be registered before entitlements to the proposed first and final dividend are determined. Shareholders whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares in the Company as at 5.00 p.m. on 29 April 2013 will be entitled to the proposed first and final dividend.

The proposed first and final dividend if approved at the Annual General Meeting, will be paid on 10 May 2013.

By Order of the Board

Chionh Yi Chian
Company Secretary
IFS Capital Limited

Singapore
3 April 2013

**Notes:**

A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. Where a member appoints more than one proxy, he shall specify the proportion of his shareholdings to be represented by each proxy. A proxy need not be a member of the Company.

The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 7 Temasek Boulevard #10-01, Suntec Tower One, Singapore 038987 (Attention: The Company Secretary), not less than 48 hours before the time appointed for holding the Annual General Meeting.

1. **Notes to Resolution 4:**

   Mr Lim Hua Min will, upon re-election as a Director of the Company, continue to serve as a Member of the Executive Resource and Compensation Committee.

2. **Notes to Resolution 7:**

   Resolution No. 7 is to empower the Directors to issue shares in the capital of the Company and to make or grant instruments (such as warrants or debentures) convertible into shares, and to issue shares in pursuance of such instruments, up to a number not exceeding 50 per cent. of the total number of issued shares in the capital of the Company (excluding treasury shares), with a sub-limit of 20 per cent. for issues other than on a *pro rata* basis to shareholders. The aggregate number of shares which may be issued shall be based on the total number of the issued shares in the capital of the Company (excluding treasury shares) at the time that Resolution No. 7 is passed, after adjusting for (a) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time that Resolution No. 7 is passed, and (b) any subsequent bonus issue, consolidation or subdivision of shares.

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# IFS CAPITAL LIMITED

(Incorporated in the Republic of Singapore)
Company Registration No. 198700827C

# PROXY FORM

## Twenty-Sixth (26th) Annual General Meeting

***IMPORTANT***

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

I/We_______________________________________________ (Name) ____________________________(NRIC/Passport No.)

of ______________________________________________________________________________________(Address)

being a member/members of **IFS Capital Limited** (the "**Company**"), hereby appoint:

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

**and/or (delete as appropriate)**

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

as my/our proxy/proxies to attend and vote for me/us on my/our behalf and if necessary, to demand a poll, at the Twenty-Sixth (26th) Annual General Meeting of the Company to be held at the IFS Boardroom, 7 Temasek Boulevard #10-01, Suntec Tower One, Singapore 038987, on Monday, 22 April 2013 at 2.30 p.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the Annual General Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the Annual General Meeting.

| | Resolutions Relating To: | For* | Against* |
|---|---|---|---|
| **Ordinary Business** | | | |
| 1 | Adoption of Directors' Report, Audited Accounts and Auditors' Report | | |
| 2 | Payment of a First and Final One-Tier Tax Exempt Ordinary Cash Dividend of 2 cents per share | | |
| 3 | Approval of Directors' Fees amounting to S$256,000 | | |
| 4 | Re-election of Director: Mr Lim Hua Min | | |
| 5 | Re-election of Director: Mr Kwah Thiam Hock | | |
| 6 | Re-appointment of KPMG LLP as Auditors | | |
| **Special Business** | | | |
| 7 | Ordinary Resolution:<br>Authority for Directors to Issue Shares and Instruments Convertible into Shares | | |

* ***If you wish to exercise all your votes "For" or "Against", please indicate with an "X" in the box provided. Alternatively, please indicate the number of votes as appropriate.***

Dated this _______ day of _________________ 2013

| Total No. of Shares in: | No. of Shares |
|---|---|
| (a) CDP Register | |
| (b) Register of Members | |

_____________________________________
Signature(s) of Member(s) or
Common Seal of Corporate Member

**IMPORTANT: PLEASE READ NOTES TO PROXY FORM OVERLEAF**

**NOTES TO PROXY FORM:**

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or two proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.
3. Completion and return of this instrument appointing a proxy or proxies shall not preclude a member from attending and voting at the Annual General Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the Annual General Meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy, to the Annual General Meeting.
4. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register as well as shares registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, the instrument of proxy will be deemed to relate to all the shares held by the member.
5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 7 Temasek Boulevard #10-01, Suntec Tower One, Singapore 038987 (Attention: The Company Secretary), not less than 48 hours before the time appointed for holding the Annual General Meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
7. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

**General**

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

*1st fold here*

Affix Postage Stamp

The Company Secretary

**IFS Capital Limited**

7 Temasek Boulevard

#10-01 Suntec Tower One

Singapore 038987

*2nd fold here*

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