KHB

KIAN HO BEARINGS LTD

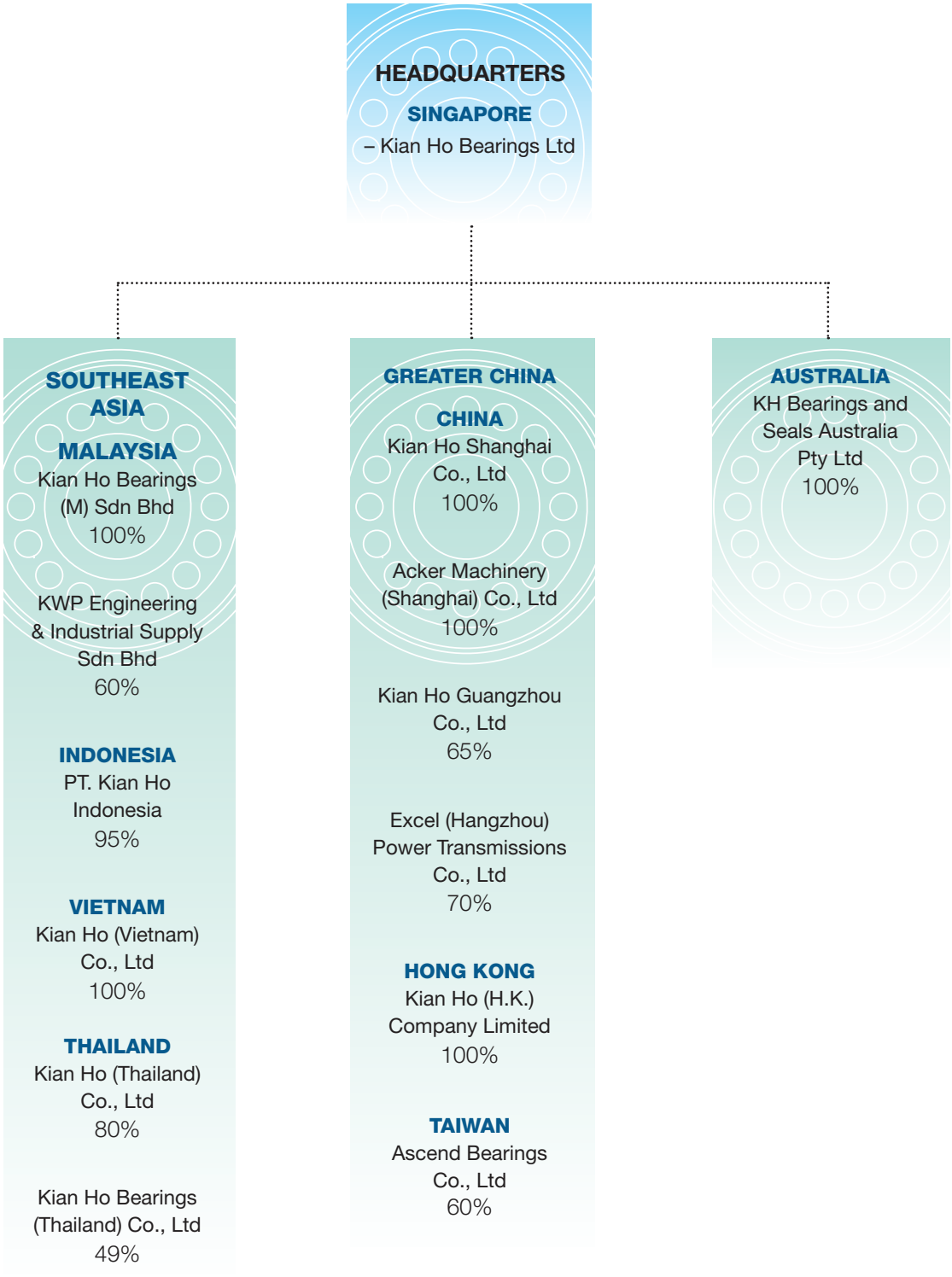
建 和 轴 承 有 限 公 司

expanding our
presence with

# strategic partnership

annual
report
2013

# CORPORATE STRUCTURE



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# CHAIRMAN'S STATEMENT

**"... the Board is pleased to recommend a one-tier tax-exempt first and final dividend of 0.2 cent per ordinary share which represents a payout ratio of about 43%. The Board and management will devote our best efforts to generate better returns for our shareholders in the years to come."**

## Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Annual Report of the Company and the Group for the year ended 31 December 2013.

### Year in Review

For the financial year 2013, Kian Ho achieved a total annual Group turnover of $78.8 million, down 8% from $85.4 million in 2012. Pre-tax profit declined 10% to $1.6 million in 2013, from $1.8 million in 2012, mainly due to lower turnover and a corresponding drop in gross profit. As a result, the Group's net profit after tax dropped 8% to $1.1 million in 2013, from $1.2 million in 2012.

### Dividend

The Directors recognise that a dividend policy at a rate that is as reasonably consistent as possible, is in the interest of shareholders of the Company.

Barring any unforeseen circumstances, the Directors aim to recommend to shareholders for approval a dividend of an amount of at least 30% of the annual net profit after tax for each financial year, while being guided to aim for 1 cent in total annual dividend at the same time.

Subject to shareholders' approval at the forthcoming Annual General Meeting, the Board is pleased to recommend a one-tier tax-exempt first and final dividend of 0.2 cent per ordinary share which represents a payout ratio of about 43%. The Board and management will devote our best efforts to generate better returns for our shareholders in the years to come.

### Looking Ahead

For the year ahead in 2014, we expect business conditions around the world to remain challenging. We will continue to be vigilant and cautious in safeguarding our business in established markets, while continuing to expand into new markets. To achieve sustainable growth in performance and shareholder value, we will continue on our regional expansion efforts.

### Appreciation

On behalf of the Board, I would like to thank our shareholders, suppliers, customers, business associates and bankers for their invaluable support. Our appreciation also goes to all our staff who have loyally served and contributed to the Company in the past year.

Yeo Wee Kiong
Chairman

# LETTER TO SHAREHOLDERS

**"Although global economic conditions remained weak, gross profit margin and pre-tax net profit margin were maintained at 21.0% (2012: 21.9%) and 2.1% (2012: 2.1%) respectively during the year due to stringent cost monitoring and cost-cutting measures taken during the year."**

## Dear Shareholders,

### YEAR IN REVIEW

2013 was a challenging year for the Group, due to:

- continued soft export demand worldwide;
- challenging market conditions in China and Taiwan domestic markets for bearings products;
- significant drop in sales of $2.8 million to an OEM customer in Singapore.

This was mitigated by:

- the resilience in the overall general MRO and OEM domestic markets in Singapore and Vietnam;
- the recovery of Malaysia domestic market in 2H13;
- the sales of seals products remaining stable year-on-year.

Although global economic conditions remained weak, gross profit margin and pre-tax net profit margin were maintained at 21.0% (2012: 21.9%) and 2.1% (2012: 2.1%) respectively during the year due to stringent cost monitoring and cost-cutting measures taken during the year.

With concerted efforts to reduce our Group stocking pressure amidst the weak global demand, the Group monitored its purchases closely and conducted aggressive promotion of its stocks and managed to reduce its Group and Company's inventories by $7.1 million and $2.5 million, respectively.

As a result, the Group's net cash generated from operating activities improved to a positive $8.8 million (2012: $3.6 million deficit) mainly due to stringent control over inventory purchases in line with lower business activities during the year. Subsequently, the Group has refinanced its bank facilities during the year.

### Outlook for 2014

The Group expects the global operating environment to remain challenging in the year ahead as recovery of the global markets continues to be uncertain. The Group however will continue to strengthen its existing core business and focus on developing its OEM and MRO businesses across the various countries in which it operates. The Group will continue its prudent approach in both inventory management and trading activities.

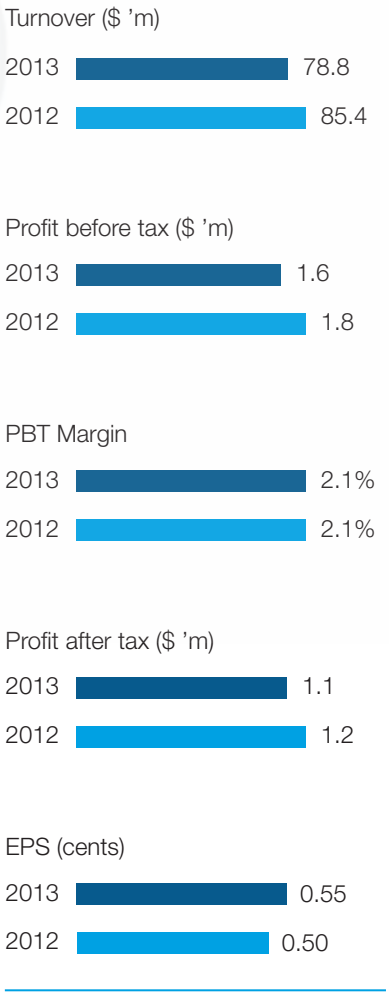
Barring any unforeseen circumstances, the Directors expect the performance of the Group for the financial year 2014 to remain profitable.

### Appreciation

I would like to acknowledge our principal suppliers, valued customers, bankers and employees, for their trust and unwavering support throughout the year. Together with them, we will continue to put our best foot forward and work towards a better and more fruitful year ahead.

Teo Teng Beng
Managing Director

### Financial Highlights



# BOARD OF DIRECTORS

## YEO WEE KIONG
Independent Chairman

Mr Yeo Wee Kiong joined the Board on 3 July 2009 as an Independent Non-Executive Director of the Company and a member of the Audit Committee. He became a member of the Remuneration Committee on 15 November 2012. He was appointed as Independent Chairman of the Board on 22 April 2013.

Mr Yeo Wee Kiong was formerly a lawyer practising in the areas of corporate law, corporate finance, mergers and acquisitions, listings on stock exchanges, venture capital, banking and securities. He started his career in 1980 as a senior industry officer with the Singapore Economic Development Board (EDB) where he participated in EDB's international drive to promote high technology investments into Singapore. He was an investment banker with NM Rothschild & Sons Singapore between 1984 to 1989 in capital markets and corporate finance advisory services. He started his legal career with Drew & Napier in 1989, subsequently founding his own law firm. He was also previously a senior partner in Rajah & Tann, a leading law firm in Singapore. He rejoined Drew & Napier LLC in 2007 and retired from practice in mid 2012.

Mr Yeo is an independent director of certain listed companies. Mr Yeo holds a First Class Honours Degree in Mechanical Engineering as well as a Masters in Business Administration degree in addition to his legal qualifications. He graduated with an honours degree in law from the University of London and is a Barrister-at-Law with the Lincoln's Inn in England.

| | |
|---|---|
| Present Directorships in other listed companies (as at 31 Dec 2013): | (1) Bonvests Holdings Limited<br>(2) SingXpress Land Limited |
| Major Appointments (other than Directorships): | (1) Council Member of Singapore Institute of Directors |
| Past Directorships in listed companies held over the preceding three years: | (1) SMRT Corporation Ltd<br>(2) Swee Hong Limited<br>(3) Singhaiyi Group Ltd |

## KWEK CHE YONG
Executive Director/Deputy Chairman

Mr Kwek has been an Executive Non-Independent Director of the Company since its date of incorporation in November 1973. He was the Chairman of the Company for approximately 30 years before stepping down in October 2007 to assume the post of Deputy Chairman. He has over 40 years of experience in the business and is actively involved in formulating the Group's development and expansion strategy.

| | |
|---|---|
| Present Directorships in other listed companies (as at 31 Dec 2013): | Nil |
| Major Appointments (other than Directorships): | Nil |
| Past Directorships in listed companies held over the preceding three years: | Nil |

## TEO TENG BENG
Managing Director

Mr Teo was appointed as an Executive Non-Independent Deputy Chairman in September 2000 and is currently the Managing Director. He was appointed as member of the Nominating Committee on 22 April 2013. He is responsible for the daily operations of the Group. Mr Teo holds directorships in private companies operating in industries such as property development and foreign exchange management. He has substantial experience in business development in Australia, Vietnam and China. Mr Teo holds a Bachelor of Science, Bachelor of Engineering and Graduate Diploma in Industrial Engineering from the University of New South Wales.

| | |
|---|---|
| Present Directorships in other listed companies (as at 31 Dec 2013): | Nil |
| Major Appointments (other than Directorships): | Nil |
| Past Directorships in listed companies held over the preceding three years: | Nil |

## TEH GEOK KOON
Executive Director cum Chief Operating Officer

Mr Teh was appointed as an Executive Non-Independent Director cum Chief Operating Officer on 29 April 2013. He had been Head, Group Operations of the Company since April 2008 and oversees the Group operations including sales and marketing, purchasing, IT business support and warehouse logistics issues. Mr Teh has substantial experience and holds directorships in private companies operating in the fire protection and security services industries. He is a Director of Vig Systems Pte Ltd. He is also a Director of Identive Smartag Pte Ltd and SCM Microsystems (Asia) Pte Ltd which are subsidiaries of Identive Group Inc listed in the NASDAQ stock exchange. He used to be the Managing Director of EMI Group Holdings Singapore Pte Ltd, Regional Director of Kidde International Protection Systems Pte Ltd and Managing Director of Chubb Singapore Pte Ltd, which was a subsidiary of a UK listed company.

| | |
|---|---|
| Present Directorships in other listed companies (as at 31 Dec 2013): | Nil |
| Major Appointments (other than Directorships): | Nil |
| Past Directorships in listed companies held over the preceding three years: | Nil |

## LEE JOO HAI
Independent Director

Mr Lee is an Independent Non-Executive Director and Chairman of the Audit Committee since October 1995. He was appointed as a Member of the Remuneration Committee since December 2002. He was appointed as member of the Nominating Committee on 22 April 2013. Mr Lee also holds directorships in other companies and has considerable experience in accounting and auditing spanning more than 20 years. He is a Certified Public Accountant of Singapore and a member of the Institute of Chartered Accountants in England and Wales.

| | |
|---|---|
| Present Directorships in other Singapore listed companies (as at 31 Dec 2013): | (1) Armarda Group Limited<br>(2) Hyflux Ltd<br>(3) IPC Corporation Ltd<br>(4) Lung Kee (Bermuda) Holdings Limited |
| Major Appointments (other than Directorships): | (1) Director of Agria Corporation |
| Past Directorships in listed companies held over the preceding three years: | (1) Adampak Limited<br>(2) Asiasons WFG Financial Ltd<br>(3) Food Junction Holdings Limited |

## TAN SAIK HOCK
Independent Director

Mr Tan was appointed Independent Non-Executive Director and member of the Audit Committee since 18 April 2013. He was appointed as Chairman of the Nominating and Remuneration Committees since 22 April 2013. Mr Tan also holds directorships in other private companies and has considerable experience in accounting spanning more than 20 years. He used to be a Director and Audit Committee member of Tasek Corporation (M) Bhd from 2006-2009. He used to be a member of the Australian Society of Accountants. He holds a Bachelor of Commerce degree and a Bachelor of Business (Accounting).

| | |
|---|---|
| Present Directorships in other listed companies (as at 31 Dec 2013): | Nil |
| Major Appointments (other than Directorships): | (1) Managing Director of Wah Aik & Co. Pte Ltd |
| Past Directorships in listed companies held over the preceding three years: | Nil |

# CORPORATE PROFILE

Kian Ho Bearings Ltd ("Kian Ho") – a Mainboard-listed company in the Singapore Exchange – was founded in 1956 and is now one of the largest stockists, distributors and retailers of bearings, seals and power transmission belts in South East Asia and the Far East, catering primarily to the bearing wholesales, Maintenance, Repair, and Overhaul ("MRO") markets and Original Equipment Manufacturers ("OEM").

Kian Ho's strength lies in the universal application of its bearings and seals products. The Group carries more than 35,000 types of bearings and seals which are used in almost all industries and products, such as transportation, electronics, construction, oil and gas, petrochemical, manufacturing and print publishing, disk drive, and marine industries.

Kian Ho currently has five branches in Singapore and seven outlets in neighbouring Malaysia. Kian Ho has several overseas subsidiaries and associate including Malaysia, Hong Kong, Taiwan, China, Vietnam, Indonesia, Australia and Thailand.

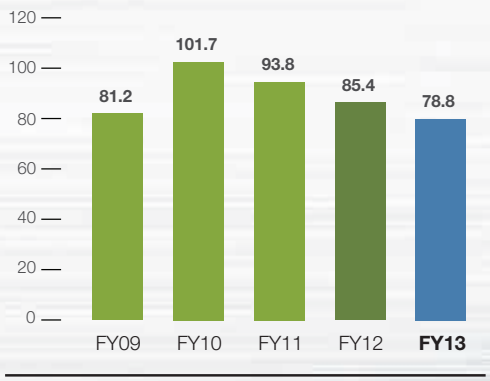
Kian Ho has a huge local customer network such as automotive part dealers, industrial suppliers, hardware dealers, ship chandlers and general trading companies to which it markets its products on a wholesale basis, as well as the OEM market, particularly in the industrial automation sector. Kian Ho has developed its overseas markets over the years and has customers world-wide.

# FINANCIAL HIGHLIGHTS

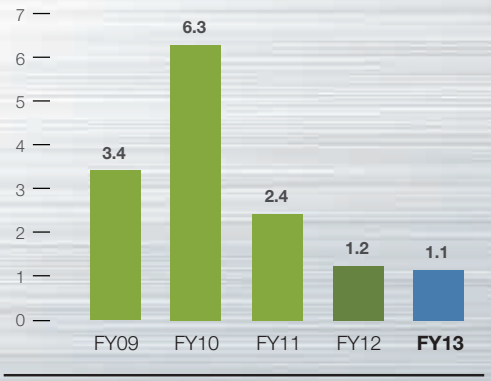
## FIVE YEAR FINANCIAL SUMMARY

| | 2009 | 2010 | 2011 | 2012 | **2013** |
|---|---|---|---|---|---|
| Turnover ($'000) | 81,161 | 101,675 | 93,823 | 85,352 | **78,754** |
| Profit after taxation before non-controlling interests ($'000) | 3,429 | 6,252 | 2,427 | 1,179 | **1,080** |
| Shareholders' equity, net of non-controlling interests ($'000) | 68,647 | 73,005 | 75,083 | 73,792 | **75,517** |
| Net tangible assets per share (cents) | 29.33 | 31.19 | 32.08 | 31.53 | **32.26** |
| Basic earnings per share (cents) | 1.45 | 2.59 | 1.02 | 0.50 | **0.55** |

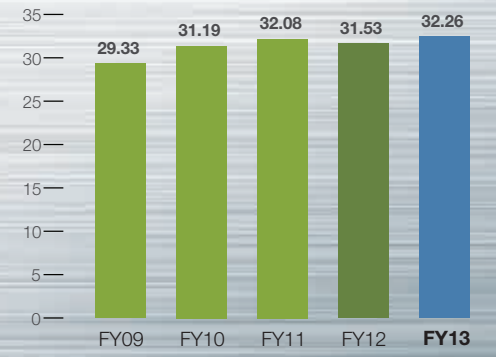
### TURNOVER
($ million)



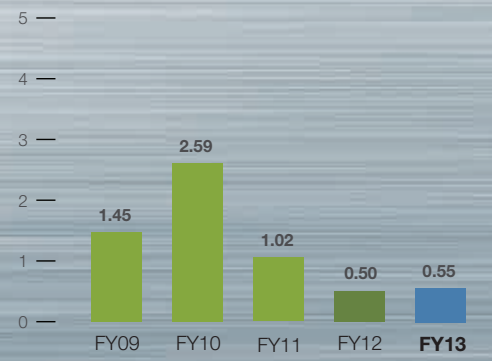

### PROFIT AFTER TAXATION BEFORE NON-CONTROLLING INTERESTS
($ million)



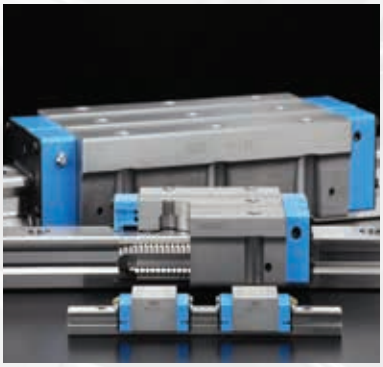

### NET TANGIBLE ASSETS PER SHARE
(cents)

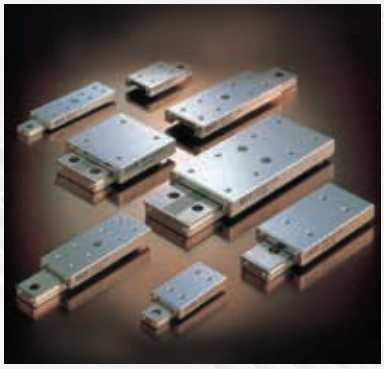



### BASIC EARNINGS PER SHARE
(cents)



# PRODUCTS WE CARRY





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# CORPORATE GOVERNANCE REPORT

Kian Ho Bearings Ltd (the "Company") strives to observe the standards of corporate conduct in line with the spirit of the Code of Corporate Governance 2012 (the "Code") so as to safeguard shareholders' interests and enhance the financial performance of the Group.

This Report describes the Company's corporate governance practices with reference to the principles of the Code. For the financial year ended 31 December 2013, the Company has adhered to the principles and guidelines of the Code as set out below.

## *Principle 1:* THE BOARD'S CONDUCT OF ITS AFFAIRS

The Board oversees the business affairs of the Group and works with the Management to achieve the objectives set for the Group. To ensure smooth operations and facilitate decision-making, and at the same time ensure proper controls, the Board has delegated some of its powers to its Committees and the Management. The Board Committees and the Management remain accountable to the Board.

The principal functions of the Board are:

- Providing entrepreneurial leadership.
- Approving the broad policies, strategies and financial objectives of the Company.
- Approving annual business plans, budgets, major funding proposals, investment and divestment proposals and monitoring the performance of Management.
- Overseeing the framework and processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance.
- Approving the nominations of Directors.
- Assuming responsibility for corporate governance.

The Board is supported by three Board Committees, namely, the Audit Committee ("AC"), the Remuneration Committee ("RC") and the Nominating Committee ("NC"). Each Committee has its own specific Terms of Reference setting out the scope of its duties and responsibilities, rules and regulations, and procedures governing the manner in which it is to operate and how decisions are to be taken.

The Board conducts regular scheduled meetings. Ad-hoc meetings are convened as and when circumstances require. Board proceedings are generally initiated and conducted by the Chairman.

The Company Secretary or her representative assists the Board and Board Committees to prepare meeting agendas, to convene Board and Board Committee meetings and prepare minutes of the proceedings.

The Company conducts a briefing for newly appointed Directors to familiarise Directors with the Company's business. The briefing includes meetings with certain key executives of the Management and briefings on key areas of the Company's operations and circulating the board meeting calendar for the year.

The Directors are provided with updates and/or briefings from time to time by professional advisers, internal and external auditors, Management and the Company Secretary in areas such as directors' duties and responsibilities, corporate governance practices, risk management matters and changes in financial reporting standards. From time to time, the Board and the Board Committees (where applicable) were also briefed by the Management on the amendments to the Corporate Governance Code and other listing rules requirements and their implications for the Company. Directors were also invited to Management business review meetings to better understand the Group operations.

The Directors are regularly kept informed by the Company Secretary of the availability of appropriate courses, conferences and seminars such as those run by the Singapore Institute of Directors, and the Directors are encouraged to attend such

training. In addition to the training courses/programmes, Directors are also at liberty to approach Management should they require any further information or clarification concerning the Company's operations. During the year, certain Directors attended seminars to enhance their knowledge to better serve the Company.

**DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEES' MEETINGS**

A record of the Directors' attendance at meetings of the Board and Board Committees during the financial year ended 31 December 2013 is set out below:

| Name of Directors | Board | Audit Committee ("AC") | | Nominating Committee ("NC") | | Remuneration Committee ("RC") | |
|---|---|---|---|---|---|---|---|
| | Attendance | Member | Attendance | Member | Attendance | Member | Attendance |
| Yeo Wee Kiong | 4/4 (Chairman) (Note 1) | Yes | 3/3 | No (Note 1) | 1/1 | Yes | 2/2 |
| Kwek Che Yong | 4/4 (Deputy Chairman) | No | *1/1 | No | – | No | – |
| Teo Teng Beng | 4/4 | No | *3/3 | Yes (Note 2) | 2/2 | No | *2/2 |
| Teh Geok Koon (Note 3) | 2/2 | No | *1/1 | No | – | No | – |
| Lee Joo Hai | 4/4 | Yes (Chairman) | 3/3 | Yes (Note 2) | 2/2 | Yes | 2/2 |
| Tan Saik Hock (Note 4) | 2/2 | Yes | 2/2 | Yes (Chairman) | 2/2 | Yes (Chairman) | 2/2 |
| Ng Sun Ho (Note 5) | 1/1 | No | *1/1 | Yes | 1/1 | No | – |
| Tan Kai Seng (Note 6) | 1/1 | Yes | 1/1 | Yes | 1/1 | Yes | – |
| Wong Meng Choong (Note 7) | – | No | – | Yes | – | No | – |
| **No. of meetings** | **4** | | **3** | | **3** | | **2** |

Note 1 Mr Yeo Wee Kiong was appointed as Independent Chairman of the Board and he ceased as Chairman of the Nominating Committee on 22 April 2013.

Note 2 Mr Lee Joo Hai and Mr Teo Teng Beng were appointed as members of the Nominating Committee on 22 April 2013.

Note 3 Mr Teh Geok Koon was appointed as Executive Director cum Chief Operating Officer on 29 April 2013.

Note 4 Mr Tan Saik Hock was appointed as Independent Director and a member of the Audit Committee on 18 April 2013. He was appointed as Chairman of the Nominating and Remuneration Committees on 22 April 2013.

Note 5 Mr Ng Sun Ho resigned as a Director on 27 February 2013. Accordingly, he ceased as a member of the Nominating Committee.

Note 6 Mr Tan Kai Seng retired as a Director during the Annual General Meeting on 18 April 2013. Accordingly, he ceased as Chairman of the Remuneration Committee and a member of the Audit and Nominating Committees.

Note 7 Mr Wong Meng Choong was appointed as Director and member of the Nominating Committee on 27 February 2013. Mr Wong was not re-elected as a Director during the Annual General Meeting on 18 April 2013. Accordingly, he ceased as a member of the Nominating Committee.

* Attendance by invitation.

# CORPORATE GOVERNANCE REPORT

## *Principle 2:* BOARD COMPOSITION AND GUIDANCE

The Board currently consists of the following six members, three of whom are Executive Directors, three are independent, non-Executive Directors.

**Executive Directors**
Kwek Che Yong (Deputy Chairman)
Teo Teng Beng (Managing Director)
Teh Geok Koon (Chief Operating Officer)

**Independent Directors**
Yeo Wee Kiong (Chairman)
Lee Joo Hai
Tan Saik Hock

The Directors of the Company come from different backgrounds and possess core competencies, qualifications and skills. They bring with them a wealth of experience that enhances the overall quality of the Board. Key information regarding the Directors is disclosed separately in this Annual Report.

The NC is of the view that the current Board size and composition is adequate taking into account the scope, nature and size of operations of the Group.The Independent Directors make up at least half of the Board, thus providing a strong and independent element to the Board capable of exercising objective judgement on the corporate affairs of the Company. No individual or small group of individuals dominates the Board's decision making. During the year, the Independent Directors also met up without the presence of Management or Executive Directors.

During the year, the NC conducted its annual review of the Directors' independence and was satisfied that the Company has complied with the guidelines of the Code. In its deliberation as to the independence of a Director, the NC took into account whether a Director has business relationships with the Group, and if so, whether such relationships could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent judgements. The NC noted that Mr Lee Joo Hai has served on the Board for more than 9 years and also has been the Audit Committee Chairman for many years. However, the NC noted that Mr Lee was not related to anyone in the Company and could complement the newer Directors on the Board. Furthermore, it was in the interest of the Company to have continuity and history in relation to accounting matters. In this connection, the NC confirmed that Mr Lee Joo Hai, Mr Tan Saik Hock and Mr Yeo Wee Kiong remain as Independent Directors of the Company.

## *Principle 3:* CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To maintain effective supervision and ensure a balance of power and authority, different individuals assumed the Chairman and CEO roles. The division of responsibilities between the Chairman and CEO have been clearly established.

The Company's Chairman, Mr Yeo Wee Kiong, is not part of the management team and is an Independent Director. He brings with him a wealth of experience, leads the Board in discussion and ensures Board members engage the Management in constructive debate on various matters including strategic issues.

The Managing Director, Mr Teo Teng Beng, who is involved in the day-to-day running of the business, has executive responsibilities for the Group's businesses and is accountable to the Board.

## *Principle 4:* BOARD MEMBERSHIP

The NC consists of the following three members, most of whom are non-Executive and the majority, including the Chairman, are independent:

| | |
|---|---|
| Tan Saik Hock, Chairman | (Independent and non-Executive) |
| Lee Joo Hai | (Independent and non-Executive) |
| Teo Teng Beng | (Non-Independent and Executive) |

The responsibilities and principal functions of the NC, as set out in its Terms of Reference, include:

- Maintaining a formal and transparent process for the appointment of new Directors to the Board, including identifying and reviewing candidates for nomination for appointment or re-appointment to the Board of Directors and to propose their appointment or re-appointment to the Board for approval.
- To determine the criteria for identifying candidates and reviewing nominations for the appointments referred to above.
- To determine how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval.
- To assess the effectiveness of the Board as a whole and the Board committees and the contribution by each individual Director to the effectiveness of the Board.
- To review and determine the independence of the Directors on an annual basis.

The NC reviews annually the nomination of the relevant Directors for re-election and the appointment of new directors as well as the independence of each of the Directors. When considering the nomination of Directors for re-election and appointment, the NC takes into account their contribution to the effectiveness of the Board as well as their time commitment especially for Directors who have multiple board representations.

The Company's Articles of Association provides that at each Annual General Meeting of the Company, not less than one third of the Directors (who have been longest in office since their appointment or re-election) are to retire from office by rotation. A retiring Director is eligible for re-election by the shareholders of the Company at the Annual General Meeting.

The NC reviewed the independence of the Directors, including those with multiple directorships in other companies, the Board size and competency mix in order to ensure the effectiveness of the Board as a whole and was satisfied that all the directors with multiple board representations and other commitments were able to carry out their duties adequately.

**Criteria and Process for Nomination and Selection of New Directors**

The NC assesses the shortlisted candidates before formally considering and recommending them for appointment to the Board and where applicable, to the Board Committees.

In reviewing and recommending to the Board any new Director appointments, the NC considers:
– the candidate's independence, in the case of the appointment of an independent non-executive Director;
– the composition requirements for the Board and Board Committees (if candidate is proposed to be appointed to any of the Board Committees) under the Corporate Governance Guidelines;
– the candidate's age, track record, experience and capabilities and such other relevant factors as may be determined by the NC which would contribute to the Board's collective skills; and
– any competing time commitments if the candidate has multiple board representations.

**Succession Planning for the Board and the Managing Director ("MD")**

The Board believes in carrying out succession planning for itself and the MD to ensure continuity of leadership. Board renewal is a continuing process and in this regard, the NC reviews the composition of the Board, which includes size and mix, annually and recommends to the Board the selection and appointment of new Directors, whether in addition to existing Board members or as replacement of retiring Board members, with a view to identifying any gaps in the Board's skill sets taking into account the Company's business operations. The Board is of the view that the Board has a good mix of skills and expertise and will be able to function smoothly notwithstanding any resignation or retirement of any Director given the present number of members and mix of competencies on the Board.

## *Principle 5:* BOARD PERFORMANCE

The NC assessed the effectiveness of the Board as a whole, and its Board committees, as well as the contribution of each Director to the effectiveness of the Board.

The NC is guided by its Terms of Reference which set out its responsibilities for assessing the Board's effectiveness as a whole and its ability to discharge its responsibilities in providing stewardship, corporate governance and monitoring Management's performance with the objective of enhancing long term value for shareholders.

The evaluation of the Board is carried out on an annual basis. The NC, in reviewing the Board's performance, has taken note of the feedback received from the Directors and acted on their comments accordingly.

In assessing the contributions of each Director during the year, the NC took note of the individual Director's attendance at meetings of the Board, Board Committees and General Meetings; the individual Director's functional expertise; and his commitment of time to the Company. The NC had evaluated the competing time commitments faced by Directors serving on multiple boards during the year. As a general rule, taking into consideration the nature and needs of the Company, the NC has determined that directors should not have more than 10 listed companies board representation and other principal commitments. In each financial year, the NC would review the Director's outside directorships, as well as the Director's attendance and contributions to the Board, in order to be satisfied that the Director is able to discharge his responsibilities to the Board. The Director should attend at least 75% of the Board and relevant Board committees' meetings each year. All Directors have complied to the guidelines in 2013. Hence, the NC is satisfied that the Directors have spent adequate time on the Company's affairs to fulfill their responsibilities.

## *Principle 6:* ACCESS TO INFORMATION

In order to enable the Board to function effectively and to fulfill its responsibilities, Management recognises its obligation to supply the Board with complete, adequate information in a timely manner. A system of communication between the Management and the Board has been established and improved over time.

Directors receive regular supply of adequate and timely information from the Management about the Company so that they are able to effectively participate in Board meetings. Management provides the Board with detailed Board papers for each meeting of the Board and its committees and are circulated in advance of each meeting. The Board papers include sufficient information on financial, business and corporate issues to enable the Directors to be properly briefed on issues to be deliberated at the Board meetings.

Each Director has been provided with the up-to-date contact particulars of the Company's senior management staff and the Company Secretary to facilitate access to any required information.

In furtherance of their duties, the Directors, individually or as a group, may seek independent professional advice on matters relating to the businesses of the Group, at the Company's expense.

## *Principle 7:* PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

The RC comprises the following three Directors, all of whom, including the Chairman, are non-executive and independent:

| | |
|---|---|
| Tan Saik Hock, Chairman | (Independent and non-Executive) |
| Lee Joo Hai | (Independent and non-Executive) |
| Yeo Wee Kiong | (Independent and non-Executive) |

The principal responsibilities of the RC, as set out in its Terms of Reference, include:

- Reviewing the remuneration framework to ensure that the programme is competitive and sufficient to attract, retain and motivate Executive/non-Executive Directors and staff of the requisite quality to run the Company successfully and recommendation to the Board for approval.

- Reviewing and recommending the remuneration for independent and non-executive Directors.

- Reviewing Executive Directors' and key executives' (as designated by the Managing Director) remuneration packages annually to determine their reasonableness and to seek appropriate independent professional advice where necessary.

- Reviewing the appropriateness and transparency of remuneration matters disclosed to shareholders.

The RC considered and approved the Managing Director's and Executive Directors' remuneration packages in accordance with their service contracts. In addition, the RC reviewed the performance of the Group's senior executives and considered the Managing Director's recommendation for bonus and remuneration proposal for all relevant senior executives. No member of the RC was involved in deciding his own remuneration.

### *Principle 8:* LEVEL AND MIX OF REMUNERATION

The Company's remuneration packages for Executive Director(s) comprised both fixed and variable components. The variable component is performance related and is linked to the Company's performance as well as each individual Director's performance. This is designed to align Directors' interests with those of shareholders' and link rewards to corporate and individual performance.

The remuneration framework has been endorsed by the entire Board. In reviewing the remuneration packages for Executive Directors and key executives, the RC may make comparative study of the remuneration packages in comparable industries and will take into account the performance of the Company and that of its Executive Directors and key executives. The RC's remuneration policy is to provide compensation packages at competitive market rates which will reward successful performance, attract, retain and motivate Executive Directors and key executives.

The Executive Directors are paid based on their Service Agreements with the Company which are subject to review every three years. The Agreements provide for termination by either party upon giving not less than three months' notice in writing.

During the year, the RC evaluated and proposed to the Board, the non-Executive Directors' fees for the year ended 31 December 2013, of which the Board concurred and will recommend the same to the shareholders for approval at the forthcoming AGM. The RC is of the view that the remuneration of non-Executive Directors is appropriate and not excessive, taking into account factors such as effort and time spent, and the increasingly onerous responsibilities of the Directors.

### *Principle 9:* DISCLOSURE ON REMUNERATION

A summary of each non-Executive and Executive Director's remuneration for 2013 is shown below: -

| Name of Directors | Status* | Breakdown of remuneration in percentage (%) | | | | Total Remuneration ($'000) |
|---|---|---|---|---|---|---|
| | | Directors' fee | Salary | Transport and other allowances | Total | |
| Kwek Che Yong | Exec, NI | – | 83 | 17 | 100 | 245 |
| Teo Teng Beng | Exec, NI | – | 84 | 16 | 100 | 286 |
| Teh Geok Koon@ | Exec, NI | – | 96 | 4 | 100 | 114 |
| Lee Joo Hai | NE, Ind | 100 | – | – | 100 | 44 |
| Tan Saik Hock | NE, Ind | 100 | – | – | 100 | 31 |
| Yeo Wee Kiong | NE, Ind | 100 | – | – | 100 | 46 |
| Ng Sun Ho# | NE, NI | 100 | – | – | 100 | 6 |
| Tan Kai Seng# | NE, Ind | 100 | – | – | 100 | 12 |
| Wong Meng Choong# | NE, NI | 100 | – | – | 100 | 5 |
| **Total Directors' Remuneration (%)** | | **18** | **70** | **12** | **100** | **789** |

* NE: Non-Executive / Exec: Executive / NI: Non-Independent / Ind: Independent
@ Mr Teh Geok Koon was appointed as Executive Director cum Chief Operating Officer on 29 April 2013.
# Please refer to notes 5, 6 and 7 under Principle 1 of this report.

**Remuneration of Top Executives (Other than the Company's Executive Directors)**

The Company advocates a performance-based remuneration system taking into account the performance of individuals, Company's performance and industry benchmarks gathered from companies in comparable industries.

The table below shows the ranges of gross remuneration received by the Group's top ten executives (excluding Executive Directors) in the Group and Company during the year: -

| Name of Top 10 Executives | Position | Breakdown of remuneration in percentage (%) | | | Total Remuneration in Compensation Bands of $250,000 |
|---|---|---|---|---|---|
| | | Salary | Variable Bonus/ Directors' fee for a subsidiary | Total | |
| Teh Geok Koon* | Head, Group Operations | 79 | 21 | 100 | <$250,000 |
| Koh Hai Yang | Head, Business Development & Subsidiaries | 91 | 9 | 100 | <$250,000 |
| Loh Mun Choong | Head, Operations | 89 | 11 | 100 | <$250,000 |
| Chong Yong Koon | Head, Local Sales | 70 | 30 | 100 | <$250,000 |
| Chang Meng Kiat | Head, Shanghai Operations and Manager, Subsidiaries | 93 | 7 | 100 | <$250,000 |
| Tiang Lay Geok | Head, Group Purchasing | 93 | 7 | 100 | <$250,000 |
| Ho Hui Min | Head, Corporate & Finance | 81 | 19 | 100 | <$250,000 |
| Wong Fock Mang | Managing Director (Kian Ho Bearings (M) Sdn Bhd) | 74 | 26 | 100 | <$250,000 |
| Le Thanh Minh Tam | General Manager (Kian Ho Vietnam Co. Ltd) | 94 | 6 | 100 | <$250,000 |
| Anthony Mikhail | General Manager (KH Bearings and Seals Pty Ltd) | 80 | 20 | 100 | <$250,000 |
| | | **84** | **16** | **100** | |
| Total gross remuneration of the Top 10 Executives during the year | | | | | $967,000 |

* Mr Teh Geok Koon was appointed as Executive Director cum Chief Operating Officer on 29 April 2013.

The RC and the Board have considered and are of the view that the Company's remuneration packages are appropriate and fair.

The below table shows the employees whose remuneration exceed $50,000 during the year and who are the immediate family members of the Deputy Chairman, Mr Kwek Che Yong, in remuneration bands: -

| Name of related employee | Position | Family relationship with Director | Total Remuneration in Compensation Bands of $50,000 |
|---|---|---|---|
| Koh Hai Yang | Head, Business Development & Subsidiaries | Son-in-law of Kwek Che Yong | $100,000 to $149,999 |
| Kwek San San | Manager, Purchasing | Daughter of Kwek Che Yong | $50,000 to $99,999 |

The aggregate amount of termination benefits that may be granted to the Managing Director, Executive Directors and the top 10 executives amounted to $256,000. Besides this amount, there are no other retirement and post-employment benefits.

## *Principle 10:* ACCOUNTABILITY

The Board recognises that it is accountable to shareholders for the performance of the Group. In discharging this responsibility, the Board ensures the timely release of the Group's financial results and that the results provide a balanced and understandable assessment of the Group's performance, position and prospects.

The Management kept the Board regularly updated on the Group's business activities and financial performance by providing operations reports on a regular basis. They also highlighted key business indicators and major issues that are relevant to the Group's performance.

The Management currently provides the Executive Directors with Management accounts of the Company's performance, position and prospects on a monthly basis. Independent Directors are briefed on significant matters when required and receive appropriately detailed reports on a regular basis.

## *Principle 11:* RISK MANAGEMENT AND INTERNAL CONTROLS

The Board recognises the importance of maintaining a sound system of risk management and internal controls to safeguard the shareholders' investments and the company's assets. The AC has been assigned to oversee the Company's risk management framework and policies and ensure that such system has been appropriately implemented and monitored.

The AC examines the effectiveness of the Group's risk management and internal control systems. The assurance mechanisms operating are supplemented by the Company's Internal Auditors' annual reviews of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls. Since 2011, the Internal Auditors were engaged to conduct an annual risk assessment or review for the Company.

Any material non-compliance or failures in internal controls and recommendations for improvements are reported to the AC. The external auditors also report to the AC on matters relating to internal financial controls which came to their attention during the course of their normal audit and related recommendations for improvements. The AC reviews the effectiveness of the actions taken by management on the recommendations made by the internal and external auditors in this respect and are satisfied that the group internal controls are in order.

The Board, with the concurrence of the Audit Committee, believes that based on the review conducted, and in the absence of any evidence to the contrary, the Company has in place an adequate system of internal controls that provides adequate assurance against material financial misstatements or losses including addressing financial, operational, compliance risks and information technology controls, and risk management systems.

The AC's responsibilities over the Group's internal controls are complemented by the work of the internal auditors.

The Board acknowledges that risk is inherent in business and there are commercial risks to be taken in the course of generating a return on business activities. The Board's policy is that risks should be managed within the Group's overall risk tolerance.

The financial risks and management policies of the Group are laid out on pages 72 to 74 of the Annual Report.

The Board has received assurance from the Managing Director, Deputy Chairman, Executive Director cum Chief Operating Officer, Business Development Head, Operations Head and Corporate and Finance Head for the financial year ended 31 December 2013:–

(a) that the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances; and

(b) regarding the effectiveness of the company's risk management and internal control systems.

### *Principle 12:* AUDIT COMMITTEE

The AC consists of the following three Directors, all of whom, including the Chairman, are non-executive and independent:

| | |
|---|---|
| Lee Joo Hai, Chairman | (Independent and non-Executive) |
| Tan Saik Hock | (Independent and non-Executive) |
| Yeo Wee Kiong | (Independent and non-Executive) |

The principal responsibilities of the AC, as set out in its Terms of Reference, include:

- Reviewing and approving the internal and external audit plans, including the scopes and results of the internal and external audits with the respective auditors.
- Reviewing the adequacy of internal control systems.
- Reviewing the effectiveness and adequacy of the internal audit function.
- Reviewing the financial statements of the Company and the consolidated financial statements of the Group before their submission to the directors of the Company.
- Reviewing the external auditor's report on the financial statements of the Company and the consolidated financial statements of the Group.
- Reviewing the half yearly and annual results announcements as well as the related press releases on the results and financial position of the Company and the Group.
- Reviewing of Interested Persons Transactions.
- Compliance with regulatory and disclosure requirements.

The majority of the members of the AC have had many years of experience in senior financial management and accounting positions in different sectors. The Board is of the view that the members of the AC have sufficient expertise and experience to discharge the AC's functions. The AC is authorised to investigate any matter within its terms of reference. The AC also has full access to the Management and full discretion to invite any Director or key executive to attend its meetings as well as utilize reasonable resources to enable it to discharge its functions properly.

The AC reviewed the half-year and full-year financial results announcements of the Company before their submission to the Board for approval prior to their release to the Singapore Exchange Securities Trading Limited ("SGX-ST").

The AC also reviewed all Interested Persons Transactions conducted and was satisfied that the transactions were at arms-length and did not require any announcement to be made to the SGX-ST or the approval of shareholders.

The Company's internal and external auditors were invited to make presentations of audit plans to the AC during the year. An annual assessment of the material internal and risk controls in the Company was undertaken by the internal auditors aside from the review of internal controls which were relevant to the audit performed by the external auditors. The AC is satisfied with the process of identification, recommendations for improvement by the external and internal auditors and implementation by the management of such recommendations. The external auditors, Messrs Deloitte & Touche LLP ("D&T"), met separately with the AC without the presence of Management annually.

Member firms of Deloitte & Touche are appointed to audit the accounts of the subsidiaries in Vietnam, Kian Ho (Vietnam) Co., Ltd. and Taiwan, Ascend Bearings Co., Ltd.

Member firms of Ernst & Young Global, another reputable international audit firm, are appointed to audit the accounts of the subsidiaries in Malaysia, Kian Ho Bearings (M) Sdn. Bhd. and KWP Engineering & Industrial Supply Sdn. Bhd. and China, Acker Machinery (Shanghai) Co., Ltd, Kian Ho Shanghai Co., Ltd and Kian Ho Guangzhou Co., Ltd.

The Board and AC are satisfied that the appointment of the other audit firms for the rest of the subsidiaries would not compromise the standard and effectiveness of the audit of the Company as they are suitable firms in their country of registration and the rest of the subsidiaries are not considered significant per the threshold of 20% or more of the Group's consolidated net tangible assets and consolidated pre-tax profits as defined in the Listing Manual.

The AC has also reviewed the scope and quality of D&T's work after taking into account the resources and experience of D&T and the audit engagement partner assigned to the audit, the size and complexity of the audit for the Company as well as the number and experience of the staff assigned by D&T for the audit.

The AC noted that D&T was not appointed in the financial year ended 31 December 2013 to provide non-audit services to the Company. The AC reviewed the independence and objectivity of D&T and was satisfied that D&T was independent in carrying out their audit of the financial statements. In accordance with Rule 1207(6) of the Listing Manual, D&T's audit fee for their audit services in the financial year ended 31 December 2013 was S$68,000/-.

The Group has complied with Rules 712 and 716 of the Listing Manual on auditors.

The AC has recommended the re-appointment of D&T as the external auditors of the Company for the ensuing year.

The AC has also established the whistle blowing policy where staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting, fraudulent acts and other matters and ensure that arrangements are in place for independent investigations of such matters and for appropriate follow up actions.

The external auditors updated the AC annually on the changes to accounting standards and issues which have a direct impact on financial statements.

### *Principle 13:* INTERNAL AUDIT

In ensuring that the Company has a robust and effective system of internal controls, an internal audit function that is independent of the activities of external audit has been established and the Internal Auditors' ("IA") primary line of reporting is to the AC.

The Company outsourced its internal audit function to Baker Tilly Consultancy (S) Pte Ltd and Shinewing Risk Services Ltd during the financial year. An annual audit plan which entails the review of the effectiveness of the Company's material internal controls was developed.

The AC annually reviews the adequacy of the internal audit function, its activities and organizational structure to ensure that no unjustified restrictions or limitations are imposed. The AC reviews and approves the annual IA plan to ensure that there is sufficient coverage of the Group' activities. It also oversees the implementation of the internal audit plan and ensures that the Management provides the necessary co-operation to enable the IA to perform its function. All improvements to controls recommended by the Internal Auditors and accepted by the AC are monitored for implementation.

The Board acknowledges responsibility for the overall internal control framework of the Company. However, the Board also recognises that no cost effective internal control system will preclude all errors and irregularities as the system is designed to manage rather than eliminate the risk of failure in order to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

### *Principles 14, 15 and 16:* SHAREHOLDER RIGHTS AND RESPONSIBILITIES; COMMUNICATION WITH SHAREHOLDERS AND CONDUCT OF SHAREHOLDER MEETINGS

In line with the continuous disclosure obligations of the Company, under the Listing Rules of the SGX-ST and the Singapore Companies Act, Cap. 50, the Board has established a policy to inform shareholders promptly of all major developments that may impact materially on the Company.

The Board embraces openness and transparency in the conduct of the Company's affairs, whilst safeguarding the commercial interests of the Company.

During the year, the Company continued to communicate with shareholders and the investing community through the timely release of announcements to the SGX-ST via SGXNET, circulation of its Annual Report/Notice of AGM, advertisement of the Notice of AGM in a major local newspaper and the provision of opportunities for shareholders to air their views and ask questions of Directors or Management regarding the Group at the AGM.

At general meetings of the Company, shareholders are given the opportunity to communicate their views and encouraged to ask the Directors and Management questions regarding matters affecting the Company. The Chairmen of all the Board Committees and the external auditors endeavour to be present at each AGM to assist the Directors in addressing queries raised by the shareholders.

The Company provides for separate resolutions at general meetings on each substantial issue, including treating the re-election of each Director as a separate subject matter. Detailed information on special business item in the AGM agenda is provided in the explanatory notes to the notice of AGM in the annual report.

In accordance with the Articles of Association of the Company, shareholders may appoint one or 2 proxies to attend and vote at general meetings in their absence. All shareholders are allowed to vote in person or by proxy. CPF investors of the Company's securities may attend shareholders' meetings as observers provided they have submitted their requests to do so with their agent banks within a specified timeframe.

As the authentication of shareholder identity information and other related integrity issues still remain a concern, the Company has decided, for the time being, not to implement voting in absentia by mail or electronic means. The results of each resolution are announced *via* SGXNET after the AGM.

**DIVIDEND POLICY**

The Directors recognise that a dividend policy at a rate that is as reasonably consistent as possible, is in the interest of shareholders of the Company.

Barring any unforeseen circumstances, the Directors aim to recommend to shareholders for approval a dividend of an amount of at least 30% of the annual net profit after tax for each financial year, while being guided to aim for 1 cent in total annual dividend at the same time. The Directors wish to highlight to shareholders that the actual dividend rate in any particular year to be recommended is subject to operational and strategic requirements for funds that may arise from time to time.

**DEALINGS IN SECURITIES**

The Company has issued an internal compliance code on dealings in the Company's securities to the Directors and Executives (including employees with access to price-sensitive information to the Company's shares) of the Group based on the recommendations of the Listing Manual issued by the SGX-ST.

The Directors and Executives covered by this code are prohibited from dealing in the Company's securities at least one month before the announcement of the Company's full year or half year results and ending on the date of announcement of the relevant results or if they are in possession of unpublished price-sensitive information of the Group. They are also discouraged from dealing in the Company's shares on short-term consideration. Notification of the 'closed window' period is sent out to the persons involved including reminder to comply with the Code of Dealings in the Company's shares. The Directors are also required to notify the Company of any dealings in the Company's securities within two (2) business days of the transaction and to submit an annual confirmation on their compliance with the internal code.

Based on the processes in place, the Board is of the opinion that the Company has complied with the listing rules issued by the SGX-ST.

**MATERIAL CONTRACTS**

There were no material contracts (including loans) of the Company or its subsidiary companies involving the interests of the CEO, each director or controlling shareholder subsisted at the end of the financial year or have been entered into since the end of the previous financial year.

# SUSTAINABILITY REPORT

We are committed to build a sustainable future for Kian Ho Bearings Ltd (the "Company") and deliver long term value and sustainable returns to all our stakeholders. Our stakeholders comprise shareholders, customers, employees, suppliers and service providers, regulatory authorities and bankers.

## CORPORATE GOVERNANCE

The Company believes in maintaining high standards in corporate governance and disclosures. We believe that conducting business in a responsible manner is important for the sustainability of the Group's business and performance as well as ensuring long term value for our stakeholders. Our Board of Directors monitors the effectiveness of management and regularly reviews the Group's corporate governance practices to ensure compliance.

The Board operates according to the principles and guidelines of the Code of Corporate Governance 2012. For the employees, the Company had established an Employees' Handbook that sets out the main principles of the conduct and business ethics including conflict of interest and abuse of position, confidentiality of information, conduct in workplace, loyalty to the Company, high standards of honesty and integrity, as well as a Whistle Blowing Policy for the employees to signal serious matters that they may be aware of. For detailed discussion on the Corporate Governance practices, please refer to the "Corporate Governance Report" section of the Annual Report.

## RISK MANAGEMENT

The Board provides guidance on the risk management practices and has overall responsibility in determining the business risk levels that is acceptable to the Group in achieving its corporate objectives. The Company engaged the Internal Auditors to conduct annual risk assessment or review and establish and review the risk management framework for the Company. The Internal Auditors would present to the Audit Committee a risk management report highlighting potential risks relating to the Company's business operations and measures to mitigate such risks.

Although risks cannot be completely eliminated, an effective risk identification and management process will reduce the uncertainties in achieving the Company's business objectives and allow the Company to take advantage of opportunities that may arise.

## INVESTOR RELATIONS

The Company believes in timely communication and disseminates all announcements to the Singapore Exchange via SGXNET. The Company encourages participation of shareholders at the Company's Annual General Meetings where our directors, management, company secretary and external auditors will be present to address shareholders' queries on the Group's business.

## PEOPLE RELATIONS AND DEVELOPMENT

Employees are the Company's most important assets. We endeavour to provide a safe and harmonious workplace for our employees and offer competitive pay packages that are linked to market practices and reward employees based on merit. We encourage formal and informal interaction and discussion amongst employees at all levels.

We recognize the importance of training and developing our human capital. Our employees are encouraged to take up various training and development programmes such as professional training, executives and leadership development as well as technical seminars.

We believe in integrity and professionalism in the conduct of our business activities and expect our employees to adopt these values.

# DIRECTORS' REPORT

The Directors are pleased to present their report to the members together with the audited consolidated financial statements of Kian Ho Bearings Ltd (the Company) and its subsidiaries (the Group) and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2013.

## DIRECTORS OF THE COMPANY

The Directors of the Company in office at the date of this report are:

| | |
|---|---|
| Yeo Wee Kiong | |
| Kwek Che Yong | |
| Teo Teng Beng | |
| Teh Geok Koon | (Appointed on 29 April 2013) |
| Lee Joo Hai | |
| Tan Saik Hock | (Appointed on 18 April 2013) |

## ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

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

## DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The following Directors, who held office at the end of the financial year, had, according to the register of Directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, an interest in shares of the Company as stated below:

| | Direct interest | | Deemed interest | | Held in the name of Director | Deemed interest |
|---|---|---|---|---|---|---|
| Name of Director | At beginning of the financial year | At end of the financial year | At beginning of the financial year | At end of the financial year | As at 21 January 2014 | As at 21 January 2014 |
| **Ordinary shares of the Company** | | | | | | |
| Kwek Che Yong | 1,193,000 | 1,193,000 | 27,659,700 | 27,659,700 | 1,193,000 | 27,659,700 |
| Teo Teng Beng | 5,207,000 | 5,207,000 | – | – | 5,207,000 | – |

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

## DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the end of the previous financial year, no Director of the Company 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 the Director is a member, or with a company in which the Director has a substantial financial interest, except for salaries, bonuses and other benefits as disclosed in the financial statements.

## OPTIONS

There is presently no option scheme on unissued shares of the Company or its subsidiaries.

# DIRECTORS' REPORT

## AUDIT COMMITTEE

The Audit Committee of the Company, consisting all non-executive and independent directors, is chaired by Mr Lee Joo Hai, and includes Mr Yeo Wee Kiong and Mr Tan Saik Hock. The Audit Committee has met three times since the last Annual General Meeting ("AGM") and has reviewed the following, where relevant, with the executive directors and external and internal auditors of the company:

- the audit plans and results of the internal auditors' examination and evaluation of the Group's systems of internal accounting controls;
- the Group's financial and operating results and accounting policies;
- the financial statements of the Company and the consolidated financial statements of the Group before their submission to the directors of the Company and external auditors' report on those financial statements;
- the half-yearly and annual announcements as well as the related press releases on the results and financial position of the Company and the Group;
- the co-operation and assistance given by the management to the Group's external auditors; and
- the re-appointment of the external auditors of the group.

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

The Audit Committee has recommended to the directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors of the group at the forthcoming AGM of the company.

## AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors

Yeo Wee Kiong
Chairman

Teo Teng Beng
Managing Director

26 February 2014

# STATEMENT BY DIRECTORS

We, Yeo Wee Kiong and Teo Teng Beng, being two of the Directors of Kian Ho Bearings Ltd, do hereby state that, in the opinion of the Directors:

(i) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 29 to 76 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 2013 and of the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year then ended, and

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

On behalf of the Board of Directors

Yeo Wee Kiong
Chairman

Teo Teng Beng
Managing Director

26 February 2014

# INDEPENDENT AUDITORS' REPORT

## To the members of Kian Ho Bearings Ltd

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Kian Ho Bearings Ltd (the Company) and its subsidiaries (the Group) which comprise the statements of financial position of the Group and the Company as at 31 December 2013, and the consolidated income statement, consolidated statement of other comprehensive income, statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 29 to 76.

**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 (the "Act") and Singapore Financial Reporting Standards and for devising and maintaining a system of internal accounting controls sufficient to provide 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 and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards 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 2013 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Deloitte & Touche LLP
Public Accountants and
Chartered Accountants
Singapore

26 February 2014

# CONSOLIDATED INCOME STATEMENT/CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2013

| | Note | Group 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Revenue | 5 | **78,754** | 85,352 |
| Other income including interest income | 6 | **467** | 489 |
| Changes in inventories | | **(6,919)** | 972 |
| Raw materials and consumables used | | **(55,290)** | (67,621) |
| Staff costs | 7 | **(9,206)** | (10,746) |
| Depreciation of property, plant and equipment | 11 | **(1,054)** | (1,038) |
| Foreign exchange loss, net | | **(57)** | (115) |
| Provision for trade doubtful debts, net | 16 | **(105)** | (265) |
| Provision for slow moving inventories | 7 | **(201)** | (436) |
| Gain on change in fair value of investment properties | 14 | **379** | 676 |
| Gain/(loss) on disposal of plant and equipment/plant and equipment written off, net | | **3** | (36) |
| Other operating expenses | | **(4,058)** | (4,213) |
| Finance costs | 8 | **(1,075)** | (1,202) |
| **Profit before tax** | | **1,638** | 1,817 |
| Income tax expense | 9 | **(558)** | (638) |
| **Profit for the year** | 7 | **1,080** | 1,179 |
| **Profit attributable to:** | | | |
| Owners of the Company | | **1,284** | 1,171 |
| Non-controlling interests | | **(204)** | 8 |
| | | **1,080** | 1,179 |
| **Earnings per share** | 10 | | |
| – Basic (cents) | | **0.55** | 0.50 |
| – Fully diluted (cents) | | **0.55** | 0.50 |
| **Profit for the year** | | **1,080** | 1,179 |
| **Other comprehensive income:** | | | |
| ***Item that will not be reclassified subsequently to profit or loss*** | | | |
| Revaluation of land and buildings | | **1,725** | 987 |
| | | **1,725** | 987 |
| ***Item that may be reclassified subsequently to profit or loss*** | | | |
| Foreign currency translation | | **(768)** | (1,132) |
| | | **(768)** | (1,132) |
| **Other comprehensive income for the year, net of tax** | | **957** | (145) |
| **Total comprehensive income for the year** | | **2,037** | 1,034 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **2,193** | 1,050 |
| Non-controlling interests | | **(156)** | (16) |
| | | **2,037** | 1,034 |

*See accompanying notes to financial statements.*

# STATEMENTS OF FINANCIAL POSITION

As at 31 December 2013

| | Note | Group 2013 $'000 | Group 2012 $'000 | Company 2013 $'000 | Company 2012 $'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | **24,561** | 23,265 | **22,037** | 20,663 |
| Investment in subsidiaries | 12 | **–** | – | **13,918** | 14,769 |
| Investment in an associate | 13 | **–** | – | **10** | 10 |
| Investment properties | 14 | **5,687** | 5,846 | **3,150** | 3,560 |
| Other investments | 15 | **237** | 237 | **237** | 237 |
| | | **30,485** | 29,348 | **39,352** | 39,239 |
| **Current assets** | | | | | |
| Trade debtors | 16 | **15,890** | 14,977 | **8,855** | 8,229 |
| Other debtors | 17 | **222** | 282 | **18** | 24 |
| Prepayments | | **83** | 269 | **22** | 71 |
| Amounts due from subsidiaries | 12 | **–** | – | **7,500** | 7,874 |
| Amount due from an associate | 13 | **1,796** | 3,103 | **1,789** | 3,095 |
| Amounts due from related parties | 18 | **2,719** | 2,959 | **893** | 916 |
| Inventories | 19 | **81,972** | 89,092 | **39,156** | 41,703 |
| Fixed deposits | 25 | **649** | 1,070 | **–** | – |
| Cash at banks and on hand | 25 | **4,137** | 4,120 | **1,605** | 1,964 |
| | | **107,468** | 115,872 | **59,838** | 63,876 |
| **Total assets** | | **137,953** | 145,220 | **99,190** | 103,115 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Interest bearing loans and borrowings | 20 | **30,012** | 39,148 | **23,657** | 27,751 |
| Trade creditors and accruals | 21 | **9,141** | 10,467 | **5,049** | 6,090 |
| Other creditors | 21 | **532** | 558 | **344** | 308 |
| Amounts due to related parties | 18 | **12,232** | 9,461 | **108** | 134 |
| Provision for taxation | | **114** | 429 | **56** | 345 |
| | | **52,031** | 60,063 | **29,214** | 34,628 |
| **Net current assets** | | **55,437** | 55,809 | **30,624** | 29,248 |
| **Non-current liabilities** | | | | | |
| Interest bearing loans and borrowings | 20 | **6,893** | 7,827 | **6,500** | 7,500 |
| Deferred tax liabilities | 22 | **2,372** | 2,013 | **1,821** | 1,488 |
| | | **9,265** | 9,840 | **8,321** | 8,988 |
| **Total liabilities** | | **61,296** | 69,903 | **37,535** | 43,616 |
| **Net assets** | | **76,657** | 75,317 | **61,655** | 59,499 |

# STATEMENTS OF FINANCIAL POSITION

As at 31 December 2013

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **2013** | **2012** | **2013** | **2012** |
| | | $'000 | $'000 | $'000 | $'000 |
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | 23 | **31,658** | 31,658 | **31,658** | 31,658 |
| Assets revaluation reserve | | **9,716** | 7,994 | **8,617** | 7,010 |
| Foreign currency translation reserve | | **(3,327)** | (2,514) | **–** | – |
| Revenue reserve | | **37,470** | 36,654 | **21,380** | 20,831 |
| | | **75,517** | 73,792 | **61,655** | 59,499 |
| Non-controlling interests | | **1,140** | 1,525 | **–** | – |
| **Total equity** | | **76,657** | 75,317 | **61,655** | 59,499 |
| **Total equity and liabilities** | | **137,953** | 145,220 | **99,190** | 103,115 |

*See accompanying notes to financial statements.*

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2013

| Group | Attributable to owners of the Company | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | Share capital (Note 23) | Assets revaluation reserve [1] | Foreign currency translation reserve [2] | Revenue reserve | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 January 2012** | 31,658 | 7,007 | (1,406) | 37,824 | 1,521 | 76,604 |
| Profit for the year | – | – | – | 1,171 | 8 | 1,179 |
| Other comprehensive income for the year | – | 987 | (1,108) | – | (24) | (145) |
| Total comprehensive income for the year | – | 987 | (1,108) | 1,171 | (16) | 1,034 |
| Contributions by and distributions to owners | | | | | | |
| Dividend paid (Note 24) | – | – | – | (2,341) | – | (2,341) |
| Capital injection by non-controlling shareholders of a subsidiary | – | – | – | – | 20 | 20 |
| Total transactions with owners recognised directly in equity | – | – | – | (2,341) | 20 | (2,321) |
| **Balance at 31 December 2012** | 31,658 | 7,994 | (2,514) | 36,654 | 1,525 | 75,317 |
| **Balance at 1 January 2013** | **31,658** | **7,994** | **(2,514)** | **36,654** | **1,525** | **75,317** |
| Profit for the year | **–** | **–** | **–** | **1,284** | **(204)** | **1,080** |
| Other comprehensive income for the year | **–** | **1,722** | **(813)** | **–** | **48** | **957** |
| Total comprehensive income for the year | **–** | **1,722** | **(813)** | **1,284** | **(156)** | **2,037** |
| Contributions by and distributions to owners | | | | | | |
| Dividend paid (Note 24) | **–** | **–** | **–** | **(468)** | **–** | **(468)** |
| Dividend paid to non-controlling shareholders of a subsidiary | **–** | **–** | **–** | **–** | **(198)** | **(198)** |
| Return of capital to non-controlling shareholder of a subsidiary | **–** | **–** | **–** | **–** | **(31)** | **(31)** |
| Total transactions with owners recognised directly in equity | **–** | **–** | **–** | **(468)** | **(229)** | **(697)** |
| **Balance at 31 December 2013** | **31,658** | **9,716** | **(3,327)** | **37,470** | **1,140** | **76,657** |

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2013

| Company | Share capital (Note 23) $'000 | Assets revaluation reserve [1] $'000 | Revenue reserve $'000 | Total equity $'000 |
|---|---|---|---|---|
| **Balance at 1 January 2012** | 31,658 | 6,229 | 21,200 | 59,087 |
| Profit for the year | – | – | 1,972 | 1,972 |
| Other comprehensive income for the year | – | 781 | – | 781 |
| Total comprehensive income for the year | – | 781 | 1,972 | 2,753 |
| Contributions by and distributions to owners | | | | |
| Dividend paid (Note 24) | – | – | (2,341) | (2,341) |
| Total transactions with owners recognised directly in equity | – | – | (2,341) | (2,341) |
| **Balance at 31 December 2012** | 31,658 | 7,010 | 20,831 | 59,499 |
| **Balance at 1 January 2013** | **31,658** | **7,010** | **20,831** | **59,499** |
| Profit for the year | **–** | **–** | **1,017** | **1,017** |
| Other comprehensive income for the year | **–** | **1,607** | **–** | **1,607** |
| Total comprehensive income for the year | **–** | **1,607** | **1,017** | **2,624** |
| Contributions by and distributions to owners | | | | |
| Dividend paid (Note 24) | **–** | **–** | **(468)** | **(468)** |
| Total transactions with owners recognised directly in equity | **–** | **–** | **(468)** | **(468)** |
| **Balance at 31 December 2013** | **31,658** | **8,617** | **21,380** | **61,655** |

[1] **Assets revaluation reserve**

The assets revaluation reserve represents increases in fair value of land and buildings, net of tax and decreases to the extent that such decrease relates to an increase of the same asset previously recognised in other comprehensive income. The assets revaluation reserve is not available for distribution to the Company's shareholders.

[2] **Foreign currency translation reserve**

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2013

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before tax | **1,638** | 1,817 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **1,054** | 1,038 |
| Provision for trade doubtful debts, net | **105** | 265 |
| Provision for slow moving inventories | **201** | 436 |
| Gain on change in fair value of investment properties | **(379)** | (676) |
| Foreign currency adjustments | **(410)** | 153 |
| (Gain)/loss on disposal of plant and equipment/plant and equipment written off, net | **(3)** | 36 |
| Interest expense | **1,075** | 1,202 |
| Interest income | **(10)** | (14) |
| **Operating cash flows before changes in working capital** | **3,271** | 4,257 |
| Changes in working capital | | |
| (Increase)/decrease in trade debtors | **(1,019)** | 501 |
| Decrease/(increase) in amount due from an associate | **1,308** | (962) |
| Decrease in other debtors | **631** | 164 |
| Decrease/(increase) in inventories | **6,893** | (2,519) |
| Decrease in trade creditors and accruals | **(1,323)** | (1,504) |
| Decrease in other creditors | **(35)** | (38) |
| Increase/(decrease) in trade amounts owing from/to related parties | **972** | (1,666) |
| **Cash flows generated from/(used in) operations** | **10,698** | (1,767) |
| Income tax paid | **(807)** | (627) |
| Interest paid | **(1,075)** | (1,202) |
| Interest income received | **10** | 14 |
| **Net cash flows generated from/(used in) operating activities** | **8,826** | (3,582) |
| **Investing activities** | | |
| Purchase of plant and equipment | **(282)** | (1,072) |
| Proceeds from sale of investment property | **685** | – |
| Proceeds from disposal of plant and equipment | **6** | 41 |
| **Net cash flows from/(used in) investing activities** | **409** | (1,031) |
| **Financing activities** | | |
| Proceeds from term loans from banks | **28,399** | 49,911 |
| Repayment of term loans from banks | **(40,777)** | (44,194) |
| Proceeds from trust receipts | **21,755** | 23,640 |
| Repayment of trust receipts | **(19,638)** | (29,700) |
| Non-trade amounts owing from/to related parties | **1,871** | 4,718 |
| Return of capital to non-controlling shareholder of a subsidiary | **(31)** | – |
| Dividend paid on ordinary shares | **(468)** | (2,341) |
| Dividend paid to non-controlling shareholders of a subsidiary | **(198)** | – |
| **Net cash flows (used in)/from financing activities** | **(9,087)** | 2,034 |
| Net increase/(decrease) in cash and cash equivalents | **148** | (2,579) |
| Effect of exchange rate changes on cash and cash equivalents | **(1)** | 169 |
| Cash and cash equivalents at 1 January | **3,990** | 6,400 |
| **Cash and cash equivalents at 31 December (Note 25)** | **4,137** | 3,990 |

*See accompanying notes to financial statements.*

## 1. CORPORATE INFORMATION

Kian Ho Bearings Ltd (the Company) is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited.

The registered office and principal place of business of the Company is located at No. 5 Changi South Street 3, Singapore 486117. The financial statements are presented in Singapore Dollars (SGD).

The principal activities of the Company are those of stockists, distributors and retailers in bearings and seals and power transmission belts. The principal activities of the subsidiaries and the associate are disclosed in Note 12 and 13 to the financial statements.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended 31 December 2013 were authorised for issue by the Board of Directors on 26 February 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *2.1 Basis of preparation*

The financial statements have been prepared in accordance with the historical cost basis except as disclosed in the accounting polices below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of FRS 102, leasing transactions that are within the scope of FRS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in FRS 2 or value in use in FRS 36.

In addition, for financial reporting purposes, the Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

### *2.2 Adoption of new and revised standards*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2013 as detailed below.

**Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income***

The group has applied the amendments to FRS 1 Presentation of Items of Other Comprehensive Income retrospectively for the first time in the current year. Under the amendments to FRS 1, the group also grouped items of other comprehensive income into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Other than the above mentioned presentation changes, the application of the amendments to FRS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.2 Adoption of new and revised standards (cont'd)*

**FRS 113 *Fair Value Measurement***

The group has applied FRS 113 for the first time in the current year. FRS 113 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The fair value measurement requirements of FRS 113 apply to both financial instrument items and non-financial assets for which other FRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of FRS 102 Share-based Payment, leasing transactions that are within the scope of FRS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

FRS 113 includes extensive disclosure requirements, although specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. Consequently the group has not made any new disclosures required by FRS 113 for the comparative period.

Other than the additional disclosures, the application of FRS 113 has not had any material impact on the amounts recognised in the consolidated financial statements.

### *2.3 Standards issued but not yet effective*

At the date of authorisation of these financial statements, the following new/revised FRSs, INT FRSs and amendments to FRS that are relevant to the Group and the Company were issued but not effective:

- FRS 27 (Revised) *Separate Financial Statements*
- FRS 110 *Consolidated Financial Statements*
- FRS 112 *Disclosure of Interests in Other Entities*
- Amendments to FRS 36 *Impairment of Assets*

**FRS 110 *Consolidated Financial Statements* and FRS 27 *Separate Financial Statements***

FRS 110 replaces the control assessment criteria and consolidation requirements currently in FRS 27 and INT FRS 12 Consolidation -Special Purpose Entities.

FRS 110 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. It also provides more extensive application guidance on assessing control based on voting rights or other contractual rights. Under FRS 110, control assessment will be based on whether an investor has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the returns. FRS 27 remains as a standard applicable only to separate financial statements.

FRS 110 will take effect from financial years beginning on or after 1 January 2014, with retrospective application subject to transitional provisions.

The Group does not expect the application of FRS 110 to have a material impact on the financial statements of the Group and the Company in the period of its initial adoption, taking into account the new definition of control and the additional guidance on control set out in FRS 110.

**FRS 112 *Disclosure of Interests in Other Entities***

FRS 112 requires an entity to provide more extensive disclosures regarding the nature of and risks associated with its interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

FRS 112 will take effect from financial years beginning on or after 1 January 2014. Upon adoption of FRS 112, the Group expects expanded disclosures relating to its interests in subsidiaries, associates and joint arrangements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

**Amendments to FRS 36 *Impairment of Assets***

The amendments to FRS 36 restrict the requirement to disclose the recoverable amount of an asset or cash generating unit (CGU) to periods in which an impairment loss has been recognised or reversed. The amendments also expand and clarify the disclosure requirements applicable when such asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal, such as the level of 'fair value hierarchy' within which the fair value measurement of the asset or CGU has been determined, and where the fair value measurements are at Level 2 or 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique, key assumptions used including discount rate(s) used.

FRS 36 will take effect from financial years beginning on or after 1 January 2014, with retrospective application required.

Upon adoption of the amendments to FRS 36, the Group expects additional disclosures arising from any asset impairment loss or reversals, and where their respective recoverable amounts are determined based on fair value less costs of disposal.

### *2.4 Subsidiaries, associates and principles of consolidation*

**a) Subsidiaries**

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors. In the Company's separate financial statements, investment in subsidiaries are accounted for at cost less impairment losses.

**b) Associates**

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's investment in associate is accounted for using the equity method of accounting. Under the equity method, the investment in associates is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable asset, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. Goodwill relating to associates is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the associate's identifiable asset, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.4 Subsidiaries, associates and principles of consolidation (cont'd)*

#### c) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period.

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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*, or FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, either in income statement or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

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

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree identifiable net assets.

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

#### d) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statements of financial position, separately from equity attributable to owners of the Company.

Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interest having a deficit balance.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.5 Foreign currency*

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its function currency). The Group's consolidated financial statements are presented in SGD, which is also the Company's functional currency.

**a) Transactions and balances**

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in the income statement except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to income statement of the Group on disposal of the foreign operation.

**b) Group companies**

The assets and liabilities of foreign operations are translated into SGD at the rate of exchange ruling at the reporting date and their income statement are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in income statement. For partial disposals of associates that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to income statement.

### *2.6 Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost or valuation less accumulated depreciation and any accumulated impairment losses. Land and buildings are subsequently revalued on an asset-by-asset basis, to their fair values. Revaluations are made with sufficient regularity to ensure that their carrying amount does not differ materially from their fair value at the reporting date.

When an asset is revalued, any increase in the carrying amount is credited directly to other comprehensive income and accumulated in equity under asset revaluation reserve. However, the increase is recognised in the income statement account to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the income statement. However, the decrease is debited directly to the asset revaluation reserve to the extent of any credit balance existing in the reserve in respect of that asset.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset, is transferred directly to accumulated profits on retirement or disposal of the asset.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.6 Property, plant and equipment (cont'd)*

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

| | | |
|---|---|---|
| Freehold buildings | – | 50 years |
| Leasehold land and buildings | – | 30 to 63 years (over the terms of lease) |
| Motor vehicles, machine handling equipment (MHE) and forklifts | – | 5 to 6 years |
| Computer equipment | – | 3 to 5 years |
| Renovation, signboards, furniture and fittings | – | 4 to 10 years |
| Office equipment | – | 5 to 10 years |
| Plant and machinery | – | 5 to 10 years |

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

The residual values, useful life and depreciation method are reviewed at end of each reporting period, and adjusted prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement account in the year the asset is derecognised. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to revenue reserve. No transfer is made from the revaluation reserve to revenue reserve except when an asset is derecognised.

### *2.7 Investment properties*

Investment properties are properties that are held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties.

Investment properties are initially measured at cost, including transaction costs. Subsequent to recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

### *2.8 Impairment of non-financial assets*

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.8 Impairment of non-financial assets (cont'd)*

Impairment losses of continuing operations are recognised in income statement in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Reversal is recognised in the income statement unless the asset is measured at revalued amount, in which case the reversal in excess of impairment loss previously recognised through the income statement is treated as a revaluation increase.

### *2.9 Financial instruments*

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period.

### *2.10 Financial assets*

**Initial recognition and measurement**

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

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

**Subsequent measurement**

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

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

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.10 Financial assets (cont'd)*

**Subsequent measurement (cont'd)**

**b) Loans and receivables**

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

The Group classifies the following financial assets as loans and receivables:

- cash and short term deposits
- trade and other receivables, including amounts due from subsidiaries, an associate and related parties.

**c) Available-for-sale financial assets**

The Group classifies its investment securities as available-for-sale financial assets.

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Investments in equity instruments whose fair value cannot be reliably measured are carried at cost less impairment losses.

**Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### *2.11 Impairment of financial assets*

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

**a) Financial assets**

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.11 Impairment of financial assets (cont'd)*

**a) Financial assets (cont'd)**

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

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

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

**b) Available-for-sale financial assets**

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

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserves.

### *2.12 Inventories*

Inventories, which consist of bearings and seal products for resale, are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and conditions are accounted for at purchase costs on a first-in first-out basis. Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### *2.13 Cash and cash equivalents*

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.14 Financial liabilities*

Financial liabilities include trade and other creditors, amounts due to subsidiaries and related parties and interest bearing loans and borrowings.

**Initial recognition and measurement**

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

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

**Subsequent measurement**

After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the liabilities are derecognised, and through the amortisation process.

**Derecognition**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### *2.15 Borrowings*

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

### *2.16 Provisions*

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

### *2.17 Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

### *2.18 Employee benefits*

**a) Defined contribution plans**

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

**b) Employee leave entitlement**

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to reporting date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.19 Taxes*

**a) Current income tax**

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

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

**b) Deferred tax**

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

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

- Where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. Except for investment properties measured using the fair value model, the measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.19 Taxes (cont'd)*

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

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The group has not rebutted the presumption that the carrying amount of the investment properties will be recovered entirely through sale.

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

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

### *2.20 Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**As lessee**

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

**As lessor**

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.21(d). Contingent rents are recognised as revenue in the period in which they are earned.

### *2.21 Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

**a) Sale of goods**

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

**b) Interest income**

Interest income is recognised on time proportion basis using the effective interest method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### *2.21 Revenue recognition (cont'd)*

**c) Dividends**

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

**d) Rental income**

Rental income arising from operating leases on investment properties are accounted for on a straight-line basis over the lease terms on ongoing leases. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

### *2.22 Segment reporting*

For management purposes, the Group is organised into operating segments based on their products which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the chief operating decision makers of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 4, including the factors used to identify the reportable segments and the measurement basis of segment information.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions would be reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements in applying the group's accounting policies**

Management is of the opinion that any instances of application of judgement are not expected to have a significant effect on the amounts recognised in the financial statements, except for judgements relating to accounting estimates as discussed below.

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

**a) Impairment of investments in subsidiaries**

The Company assesses at each reporting date whether there is an indication that the investments in subsidiaries may be impaired. Where such indicators exist, an estimation of the value in use of the cash generating units is required. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. During the year, Management made estimates relating to the recoverable amounts of certain subsidiaries using the discounted cash flow method. The discount rates used range from 10% to 17% and a growth rate of 5% was used. Management determined that no provision for impairment is necessary.

The carrying amount of the Company's investment in subsidiaries as at 31 December 2013 was $13,918,000 (2012: $14,769,000).

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT'D)

### b) Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of significant financial difficulties of the debtor and defaults or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the reporting date is disclosed in Note 16 to the financial statements.

### c) Valuation of investment properties

The Group's investment properties, with a carrying amount of $5,687,000 (2012: $5,846,000), were stated at their estimated fair values which are determined annually by independent professional valuers.

In determining fair values, the valuers have used valuation techniques (including direct comparison method) which involve estimates and significant unobservable inputs which are disclosed in Note 14. The direct comparison method involves the analysis of comparable sales of similar properties and adjusting prices to that reflective of the investment properties.

In relying on valuation reports, the management has exercised its judgement and is satisfied that the valuation methods and estimates are reflective of current market conditions. The carrying amounts of investment properties at the end of the reporting period are disclosed in Note 14 to the financial statements.

### d) Assessment of inventories write-down

Management reviews the valuation of inventories periodically for excess inventories, obsolescence and declines in net realisable value below cost is recorded against the inventories balance. These reviews require management to consider the age and type of inventories, likelihood of obsolescence, distributorships, past sales history and the demand for the products. The Group has been establishing itself in overseas markets through its subsidiaries as part of a longer term strategy of being closer and more direct to its end customers. For the year under review, the Group's inventory held by overseas subsidiaries accounted for more than half of total stocks as at end of the reporting period, which reflected the impact of this strategy. In line with this, the Group reviewed the bases of estimate on which allowance of inventory is calculated to be aligned to this business strategy. With its overseas subsidiaries in better contact with end customers, the Group is able to have a more specific basis in estimating inventory obsolescence.

Management used 5% of the carrying amount of inventory as at the end of the reporting period as a threshold to determine if an impact is significant.

The review resulted in an upward revision to inventories of less than the threshold above.

## 4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products, and has two reportable operating segments as follows:

Bearings : Distributors, stockists and retailers in this area.
Seals : Distributors, stockists and retailers in this area.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

The Group's operating businesses are organised and managed separately according to the nature of products, with each segment representing a strategic business unit that offers different products. The Bearings and Seals segments are diverse distributors and retailers of bearings and seals respectively. These two segments offer products that are used widely in many industries such as the semi-conductor industry, the automobile industry and the construction industry. Segment accounting policies are the same as the policies described in Note 2.

Chief operating decision makers of the Group monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

The following tables present revenue and profit information regarding industry segments for the years ended 31 December 2013 and 2012 and certain assets and liabilities information regarding industry segments at 31 December 2013 and 2012.

| **Business segments** | **Bearings** | | **Seals** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| *Segment revenue* | | | | | | |
| Sales to external customers | **71,562** | 78,052 | **7,192** | 7,300 | **78,754** | 85,352 |
| Segment results | **2,456** | 2,748 | **247** | 257 | **2,703** | 3,005 |
| Adjustments A | | | | | | |
| Interest income | | | | | **10** | 14 |
| Finance costs | | | | | **(1,075)** | (1,202) |
| Profit before tax per consolidated income statement | | | | | **1,638** | 1,817 |

## 4. SEGMENT INFORMATION (CONT'D)

| Business segments | Bearings | | Seals | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| *Other business segment information* | | | | | | |
| Capital expenditure | **256** | 980 | **26** | 92 | **282** | 1,072 |
| Depreciation | **958** | 949 | **96** | 89 | **1,054** | 1,038 |
| Other non-cash income | **(442)** | 196 | **(44)** | 18 | **(486)** | 214 |
| Segment assets | **125,140** | 132,583 | **12,576** | 12,400 | **137,716** | 144,983 |
| Adjustment B | | | | | | |
| Other investments | | | | | **237** | 237 |
| Per consolidated statement of financial position | | | | | **137,953** | 145,220 |
| Segment liabilities | **19,905** | 18,734 | **2,000** | 1,752 | **21,905** | 20,486 |
| Adjustments C | | | | | | |
| Interest bearing loans and borrowings | | | | | **36,905** | 46,975 |
| Provision for taxation | | | | | **114** | 429 |
| Deferred tax liabilities | | | | | **2,372** | 2,013 |
| Per consolidated statement of financial position | | | | | **61,296** | 69,903 |

Adjustments A

These items are added to/(deducted from) segment profit to arrive at 'profit before tax' presented in the consolidated income statement.

Adjustments B and C

These items are added to segment assets/liabilities to arrive at total assets/liabilities reported in the consolidated statement of financial position.

Non-cash income information presented above consists of foreign currency adjustments, gain/loss on disposal of plant and equipment/plant and equipment written off, gain on change in fair value of investment properties, provision for trade doubtful debts, and provision for slow moving inventories as presented in the consolidated statement of cash flows.

## 4. SEGMENT INFORMATION (CONT'D)

**Geographical information**

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

| | Revenue | | Non – current assets | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| Singapore | **18,528** | 20,481 | **25,187** | 24,223 |
| Asean | **23,541** | 24,124 | **1,373** | 1,460 |
| Other Asian countries | **27,121** | 29,630 | **3,665** | 3,378 |
| Western countries | **7,470** | 9,016 | **–** | – |
| Others | **2,094** | 2,101 | **23** | 50 |
| | **78,754** | 85,352 | **30,248** | 29,111 |

Non-current assets information presented above consist of property, plant and equipment, and investment properties as presented in the consolidated statement of financial position.

**Information about major customers**

The Group is not significantly reliant on revenue derived from any major customers or group of customers.

## 5. REVENUE

Revenue represents invoiced value of goods supplied after allowances for returns and trade discounts.

## 6. OTHER INCOME

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Interest income from bank | **10** | 14 |
| Rental income from investment properties (Note 14) | **403** | 366 |
| Others | **54** | 109 |
| | **467** | 489 |

## 7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| **Staff costs (excluding Directors' remuneration)** | | |
| Salaries and bonus | **6,789** | 8,163 |
| Employer's contribution to defined contribution plans | **741** | 873 |
| Other benefits | **516** | 435 |
| | **8,046** | 9,471 |
| **Directors' remuneration** | | |
| Company | **799** | 912 |
| Subsidiaries | **361** | 363 |
| | **1,160** | 1,275 |
| Aggregate staff costs | **9,206** | 10,746 |
| Cost of inventories recognised as expense | **62,209** | 66,649 |
| Provision for slow moving inventories | **201** | 436 |
| Audit fees: | | |
| – auditors of the Company | | |
| – current year | **68** | 62 |
| – other auditors | | |
| – current year | **103** | 102 |
| – under/(over) provision in prior year | **4** | (1) |
| Total audit fees | **175** | 163 |
| Total non-audit fees for other auditors | **1** | 10 |
| Aggregate amount of fees for auditors | **176** | 173 |

## 8. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| **Interest expense on:** | | |
| Term loans | **965** | 1,061 |
| Trust receipts | **108** | 140 |
| Bank overdraft | **2** | 1 |
| | **1,075** | 1,202 |

## 9. INCOME TAX EXPENSE

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Foreign tax deducted at source | **59** | 15 |
| Current tax | **524** | 821 |
| Over provision of current income tax in respect of prior years | **(31)** | (67) |
| Deferred tax (Note 22) | **6** | (131) |
| Income tax expense recognised in the income statement | **558** | 638 |

Domestic income tax is calculated at 17% (2012: 17%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Reconciliation of the tax expense and the product of accounting profit multiplied by the applicable income tax rate for the Group is as follows:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Profit before tax | **1,638** | 1,817 |
| Tax at the applicable tax rate of 17% (2012: 17%) | **278** | 309 |
| Expenses not deductible in determining taxable profit | **167** | 135 |
| Tax effect of income not taxable for tax purposes | **–** | (9) |
| Tax effect of different applicable tax rates for foreign subsidiaries | **75** | 121 |
| Benefits of previously unrecognised tax losses | **–** | 9 |
| Effect of partial tax exemption and tax relief | **(119)** | (62) |
| Overprovision in respect of prior years | **(31)** | (67) |
| Reversal of deferred tax | **–** | (145) |
| Deferred tax asset not recognised | **146** | 363 |
| Foreign tax deducted at source | **59** | 15 |
| Others | **(17)** | (31) |
| Income tax expense recognised in the income statement | **558** | 638 |

## 10. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to owners of the parent of $1,284,000 (2012: $1,171,000) by weighted average number of ordinary shares 234,060,000 (2012: 234,060,000) outstanding during the year.

## 11. PROPERTY, PLANT AND EQUIPMENT

| Group | Freehold land $'000 | Freehold buildings $'000 | Leasehold land and buildings $'000 | Motor vehicles, MHE and forklifts $'000 | Computer equipment $'000 | Renovation, signboards, furniture and fittings $'000 | Office equipment $'000 | Plant and machinery $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost/valuation** | | | | | | | | | |
| At 1 January 2012 | | | | | | | | | |
| Cost | – | – | – | 1,133 | 1,383 | 1,829 | 575 | 2,497 | 7,417 |
| Valuation | 231 | 164 | 20,932 | – | – | – | – | – | 21,327 |
| | 231 | 164 | 20,932 | 1,133 | 1,383 | 1,829 | 575 | 2,497 | 28,744 |
| Revaluation surplus | – | – | 1,224 | – | – | – | – | – | 1,224 |
| Elimination of accumulated depreciation on revaluation | – | – | (822) | – | – | – | – | – | (822) |
| Additions | – | – | 650 | 146 | 84 | 135 | 57 | – | 1,072 |
| Disposal/write-off | – | – | – | (92) | (92) | (60) | (14) | – | (258) |
| Transfer to investment properties (Note 14) | – | – | (501) | – | – | – | – | – | (501) |
| Reclassification | – | – | – | – | 4 | – | (4) | – | – |
| Exchange adjustments | (5) | (4) | (56) | (27) | (11) | (28) | (10) | – | (141) |
| At 31 December 2012 | 226 | 160 | 21,427 | 1,160 | 1,368 | 1,876 | 604 | 2,497 | 29,318 |
| **Representing:** | | | | | | | | | |
| Cost | – | – | – | 1,160 | 1,368 | 1,876 | 604 | 2,497 | 7,505 |
| Valuation | 226 | 160 | 21,427 | – | – | – | – | – | 21,813 |
| At 31 December 2012 | 226 | 160 | 21,427 | 1,160 | 1,368 | 1,876 | 604 | 2,497 | 29,318 |

## 11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| Group | Freehold land $'000 | Freehold buildings $'000 | Leasehold land and buildings $'000 | Motor vehicles, MHE and forklifts $'000 | Computer equipment $'000 | Renovation, signboards, furniture and fittings $'000 | Office equipment $'000 | Plant and machinery $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost/valuation** | | | | | | | | | |
| At 1 January 2013 | | | | | | | | | |
| Cost | **–** | **–** | **–** | **1,160** | **1,368** | **1,876** | **604** | **2,497** | **7,505** |
| Valuation | **226** | **160** | **21,427** | **–** | **–** | **–** | **–** | **–** | **21,813** |
| | **226** | **160** | **21,427** | **1,160** | **1,368** | **1,876** | **604** | **2,497** | **29,318** |
| Revaluation surplus | **89** | **3** | **1,965** | **–** | **–** | **–** | **–** | **–** | **2,057** |
| Elimination of accumulated depreciation on revaluation | **–** | **(16)** | **(521)** | **–** | **–** | **–** | **–** | **–** | **(537)** |
| Additions | **–** | **–** | **–** | **93** | **80** | **48** | **61** | **–** | **282** |
| Disposal/write-off | **–** | **–** | **–** | **(90)** | **(11)** | **(16)** | **(1)** | **(2)** | **(120)** |
| Reclassification | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Exchange adjustments | **(7)** | **(5)** | **37** | **(28)** | **(11)** | **(11)** | **(3)** | **–** | **(28)** |
| At 31 December 2013 | **308** | **142** | **22,908** | **1,135** | **1,426** | **1,897** | **661** | **2,495** | **30,972** |
| **Representing:** | | | | | | | | | |
| Cost | **–** | **–** | **–** | **1,135** | **1,426** | **1,897** | **661** | **2,495** | **7,614** |
| Valuation | **308** | **142** | **22,908** | **–** | **–** | **–** | **–** | **–** | **23,358** |
| At 31 December 2013 | **308** | **142** | **22,908** | **1,135** | **1,426** | **1,897** | **661** | **2,495** | **30,972** |

## 11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| Group | Freehold land $'000 | Freehold buildings $'000 | Leasehold land and buildings $'000 | Motor vehicles, MHE and forklifts $'000 | Computer equipment $'000 | Renovation, signboards, furniture and fittings $'000 | Office equipment $'000 | Plant and machinery $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | | | | |
| At 1 January 2012 | – | – | 326 | 631 | 1,080 | 1,493 | 277 | 2,259 | 6,066 |
| Charge for the year | – | 8 | 500 | 138 | 168 | 123 | 77 | 24 | 1,038 |
| Reclassification | – | – | – | – | 1 | – | (1) | – | – |
| Disposal/write-off | – | – | – | (53) | (92) | (27) | (9) | – | (181) |
| Elimination of accumulated depreciation on revaluation | – | – | (822) | – | – | – | – | – | (822) |
| Exchange adjustments | – | – | (4) | (11) | (6) | (18) | (9) | – | (48) |
| At 31 December 2012 | – | 8 | – | 705 | 1,151 | 1,571 | 335 | 2,283 | 6,053 |
| **Accumulated depreciation** | | | | | | | | | |
| At 1 January 2013 | **–** | **8** | **–** | **705** | **1,151** | **1,571** | **335** | **2,283** | **6,053** |
| Charge for the year | **–** | **9** | **521** | **144** | **154** | **116** | **86** | **24** | **1,054** |
| Reclassification | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Disposal/write-off | **–** | **–** | **–** | **(90)** | **(9)** | **(15)** | **(1)** | **(2)** | **(117)** |
| Elimination of accumulated depreciation on revaluation | **–** | **(16)** | **(521)** | **–** | **–** | **–** | **–** | **–** | **(537)** |
| Exchange adjustments | **–** | **(1)** | **–** | **(19)** | **(10)** | **(10)** | **(2)** | **–** | **(42)** |
| At 31 December 2013 | **–** | **–** | **–** | **740** | **1,286** | **1,662** | **418** | **2,305** | **6,411** |
| **Net carrying amount** | | | | | | | | | |
| At 31 December 2013 | **308** | **142** | **22,908** | **395** | **140** | **235** | **243** | **190** | **24,561** |
| At 31 December 2012 | 226 | 152 | 21,427 | 455 | 217 | 305 | 269 | 214 | 23,265 |

## 11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| Company | Leasehold land and buildings $'000 | Motor vehicles, MHE and forklifts $'000 | Computer equipment $'000 | Renovation, signboards, furniture and fittings $'000 | Office equipment $'000 | Plant and machinery $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Cost/valuation** | | | | | | | |
| At 1 January 2012 | | | | | | | |
| Cost | – | 330 | 1,122 | 1,130 | 338 | 2,494 | 5,414 |
| Valuation | 19,601 | – | – | – | – | – | 19,601 |
| | 19,601 | 330 | 1,122 | 1,130 | 338 | 2,494 | 25,015 |
| Revaluation surplus | 941 | – | – | – | – | – | 941 |
| Elimination of accumulated depreciation on revaluation | (784) | – | – | – | – | – | (784) |
| Additions | 252 | – | 12 | – | 27 | – | 291 |
| Disposal/write-off | – | (4) | (88) | – | (5) | – | (97) |
| At 31 December 2012 | 20,010 | 326 | 1,046 | 1,130 | 360 | 2,494 | 25,366 |
| **Representing:** | | | | | | | |
| Cost | – | 326 | 1,046 | 1,130 | 360 | 2,494 | 5,356 |
| Valuation | 20,010 | – | – | – | – | – | 20,010 |
| At 31 December 2012 | 20,010 | 326 | 1,046 | 1,130 | 360 | 2,494 | 25,366 |
| **Cost/valuation** | | | | | | | |
| At 1 January 2013 | | | | | | | |
| Cost | **–** | **326** | **1,046** | **1,130** | **360** | **2,494** | **5,356** |
| Valuation | **20,010** | **–** | **–** | **–** | **–** | **–** | **20,010** |
| | **20,010** | **326** | **1,046** | **1,130** | **360** | **2,494** | **25,366** |
| Revaluation surplus | **1,936** | **–** | **–** | **–** | **–** | **–** | **1,936** |
| Elimination of accumulated depreciation on revaluation | **(486)** | **–** | **–** | **–** | **–** | **–** | **(486)** |
| Additions | **–** | **10** | **75** | **40** | **51** | **–** | **176** |
| Disposal/write-off | **–** | **(68)** | **(8)** | **–** | **–** | **–** | **(76)** |
| At 31 December 2013 | **21,460** | **268** | **1,113** | **1,170** | **411** | **2,494** | **26,916** |
| **Representing:** | | | | | | | |
| Cost | **–** | **268** | **1,113** | **1,170** | **411** | **2,494** | **5,456** |
| Valuation | **21,460** | **–** | **–** | **–** | **–** | **–** | **21,460** |
| At 31 December 2013 | **21,460** | **268** | **1,113** | **1,170** | **411** | **2,494** | **26,916** |

## 11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| Company | Leasehold land and buildings $'000 | Motor vehicles, MHE and forklifts $'000 | Computer equipment $'000 | Renovation, signboards, furniture and fittings $'000 | Office equipment $'000 | Plant and machinery $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2012 | 326 | 300 | 871 | 989 | 124 | 2,256 | 4,866 |
| Charge for the year | 458 | 11 | 127 | 47 | 51 | 24 | 718 |
| Disposal/write-off | – | (4) | (89) | – | (4) | – | (97) |
| Elimination of accumulated depreciation on revaluation | (784) | – | – | – | – | – | (784) |
| At 31 December 2012 | – | 307 | 909 | 1,036 | 171 | 2,280 | 4,703 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2013 | **–** | **307** | **909** | **1,036** | **171** | **2,280** | **4,703** |
| Charge for the year | **486** | **11** | **115** | **39** | **62** | **24** | **737** |
| Disposal/write-off | **–** | **(68)** | **(7)** | **–** | **–** | **–** | **(75)** |
| Elimination of accumulated depreciation on revaluation | **(486)** | **–** | **–** | **–** | **–** | **–** | **(486)** |
| At 31 December 2013 | **–** | **250** | **1,017** | **1,075** | **233** | **2,304** | **4,879** |
| **Net carrying amount** | | | | | | | |
| At 31 December 2013 | **21,460** | **18** | **96** | **95** | **178** | **190** | **22,037** |
| At 31 December 2012 | 20,010 | 19 | 137 | 94 | 189 | 214 | 20,663 |

(a) The Group engaged independent valuers to determine the fair value of the land and buildings. The valuations were made at year end on the basis of direct comparison with recent transactions of comparable properties within the vicinity and open market value.

The Group classified fair value measurement using a fair value hierarchy that reflects the nature and complexity of the significant inputs used in making the measurement. As at end of 31 December 2013, the fair value measurements of the Group's land and buildings are classified within Level 3 of the fair value hierarchy. There were no transfers between different levels during the year.

Management considers that certain unobservable inputs used in the fair value measurement of the Group's land and buildings are sensitive to the fair value measurement. A change in these inputs will have a corresponding increase/decrease in the fair valuation, such that, an increase in the transacted price of comparable properties, ranging from $758 to $3,800 per square metre for respective properties, will lead to an increase in the fair value of the land and building.

The carrying amounts of land and buildings if measured using the cost model, would be as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| Net carrying value | **12,398** | 12,680 | **11,455** | 11,753 |

(b) The Group's freehold and leasehold properties with net carrying amounts of $871,000 (2012: $805,000) are pledged as collateral for bank facilities (Note 20).

**11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

c) Properties owned by the Group include:

| Property location | Area (sq m) | Usage | Tenure years |
|---|---|---|---|
| ***Held by the Company*** | | | |
| 27A Jurong Port Road #01-42 Singapore 619101 | 158 | JTC single storey corner terrace workshop | 15.10.2012 to 15.10.2024 |
| No. 5 Changi South Street 3 Singapore 486117 | 9,390 | Centralised office cum warehouse | 16.9.1997 to 16.9.2057 |
| 387F Woodlands Road Singapore 677951 | 149 | Shop | 19.1.1992 to 18.1.2022 |
| ***Held by subsidiaries*** | | | |
| 43, 43A, 43B, 43C Jln Glasair Taman Tasek Johor Bahru Malaysia | 470 | 4 storey building | Freehold |
| Lot nos: 0009, 0010, 0011 Resource Complex Ground Floor 33 Jln Segambut Atas Segambut Kuala Lumpur, Malaysia | 588 | Ground floor corner shop unit | 03.10.1978 to 02.10.2044 |
| 63 Jln Lim Swee Sim Kluang, Malaysia | 150 | 2 storey shop house | Freehold |
| No 2193 Guang Yuan East Road, Room 2703, Tian He District, Guangzhou, China | 120 | Office cum warehouse | 19.12.2012 to 09.11.2065 |
| No 2193 Guang Yuan East Road, Room 2704, Tian He District, Guangzhou, China | 155 | Office cum warehouse | 19.12.2012 to 09.11.2065 |
| Chengdu Jinniu District, No. 777 Jinfu Road, Block 32 Unit 11 Jin Fu Hardware Centre Chengdu, Sichuan, China 610031 [(1)] | 260 | Warehouse unit | 07.07.2006 to 06.07.2046 |

[(1)] The previously owner-occupied warehouse unit was transferred to investment property (Note 14) in 2012 due to change in use.

## 12. INVESTMENT IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Unquoted shares at cost | **4,861** | 5,103 |
| Less: Impairment loss | **–** | (100) |
| | **4,861** | 5,003 |
| Loans to subsidiaries | **9,057** | 9,766 |
| | **13,918** | 14,769 |
| Amounts due from subsidiaries – trade | **7,262** | 7,874 |
| Amount due from subsidiary – non-trade | **238** | – |
| Amounts due from subsidiaries (Note 16) | **7,500** | 7,874 |

During the year, the Company has written back impairment loss of $100,000 on its investment in a dormant subsidiary due to return of capital.

The amounts due from subsidiaries are unsecured, non-interest bearing, and repayable on demand.

The subsidiaries as at 31 December are as follows:

| **Name of company (Country of incorporation)** | **Principal activities (Place of business)** | **Percentage of equity and voting power held by the Group** | |
|---|---|---|---|
| | | **2013** | **2012** |
| | | % | % |
| Kian Ho Bearings (M) Sdn. Bhd. [2] (Malaysia) | Dealer in bearings, belts and seals (Malaysia) | **100** | 100 |
| Ascend Bearings Co., Ltd [1] (Taiwan) | Dealer in bearings, belts and seals (Taiwan) | **60** | 60 |
| Acker Machinery (Shanghai) Co., Ltd [2] (China) | Dealer in bearings, belts and seals (China) | **100** | 100 |
| Kian Ho Shanghai Co., Ltd [2] (China) | Dealer in bearings, belts and seals (China) | **100** | 100 |
| Kian Ho (H.K.) Company Limited [3,7] (Hong Kong) | Dealer in bearings, belts and seals (Hong Kong) | **100** | 100 |
| PT. Kian Ho Indonesia [4] (Indonesia) | Dealer in bearings, belts and seals (Indonesia) | **80** | 80 |
| Kian Ho (Vietnam) Co., Ltd [1] (Vietnam) | Dealer in bearings, belts and seals (Vietnam) | **100** | 100 |
| KH Bearings and Seals Australia Pty Ltd [5] (Australia) | Dealer in bearings, belts and seals (Australia) | **100** | 100 |
| Kian Ho Guangzhou Co., Ltd [2] (China) | Dealer in bearings, belts and seals (China) | **65** | 65 |
| Excel (Hangzhou) Power Transmissions Co., Ltd [6] (China) | Dormant (China) | **70** | 70 |

## 12. INVESTMENT IN SUBSIDIARIES (CONT'D)

The subsidiaries as at 31 December are as follows:

| Name of company (Country of incorporation) | Principal activities (Place of business) | Percentage of equity and voting power held by the Group | |
|---|---|---|---|
| | | **2013** | **2012** |
| | | % | % |
| Kian Ho (Thailand) Co., Ltd [6] (Thailand) | Dormant (Thailand) | **80** | 80 |
| Chengdu Excel Bearings Co., Ltd [8] (China) | Liquidated (China) | **–** | 100 |

The subsidiary held by Kian Ho Bearings (M) Sdn. Bhd. as at 31 December is as follows:

| Name of company (Country of incorporation) | Principal activities (Place of business) | Percentage of equity and voting power held by the Group | |
|---|---|---|---|
| | | **2013** | **2012** |
| | | % | % |
| KWP Engineering & Industrial Supply Sdn. Bhd. [2] (Malaysia) | Dealer in bearings, belts and seals (Malaysia) | **60** | 60 |

1 Audited by member firms of Deloitte & Touche.
2 Audited by member firms of Ernst & Young Global.
3 Audited by Shinewing (HK) CPA Limited in FY2012.
4 Audited by Kreston International.
5 Audited by Farmilo & Co Chartered Accountants.
6 Not required to be audited as these are dormant.
7 Audited by Dicky Lau & Co.
8 The company was struck off in 2013.

## 13. INVESTMENT IN AN ASSOCIATE

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| Unquoted share at cost | **10** | 10 | **10** | 10 |
| Share of post-acquisition reserves | **(10)** | (10) | **–** | – |
| | **–** | – | **10** | 10 |
| Amounts due from an associate – trade (Note 16) | **1,796** | 3,103 | **1,789** | 3,095 |

The Group has not recognised losses relating to Kian Ho Bearings (Thailand) Co., Ltd where its share of losses exceeds the Group's interest in this associate. The Group's cumulative share of unrecognised losses at the end of the reporting period was $58,000 (2012: $22,000), of which $36,000 (2012: $1,000 share of profit) was the share of the current year's loss. The Group has no obligation in respect of these losses.

## 13. INVESTMENT IN AN ASSOCIATE (CONT'D)

The associate as at 31 December is as follows:

| Name of company (Country of incorporation) | Principal activities (Place of business) | Percentage of equity and voting power held by the Group | |
|---|---|---|---|
| | | 2013 | 2012 |
| | | % | % |
| Kian Ho Bearings (Thailand) Co., Ltd (Thailand) [1] | Dealer in bearings, belts and seals (Thailand) | **49** | 49 |

[1] Audited by ANS Audit Co., Ltd.

The summarised financial information of the associate not adjusted for the proportion of ownership interest held by the Group, is as follows:

| | Group | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| **Assets and liabilities** | | |
| Non-current assets | **34** | 61 |
| Current assets | **4,316** | 4,943 |
| Total assets | **4,350** | 5,004 |
| Non-current liabilities | **(35)** | 14 |
| Current liabilities | **4,563** | 5,041 |
| Total liabilities | **4,528** | 5,055 |
| **Results** | | |
| Revenue | **4,196** | 2,139 |
| Profit net of tax | **(74)** | 2 |

## 14. INVESTMENT PROPERTIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at 1 January | **5,846** | 4,756 | **3,560** | 2,890 |
| Transfer from property, plant and equipment (Note 11) | **–** | 501 | **–** | – |
| Disposed during the year | **(685)** | – | **(685)** | – |
| Gain on change in fair value recognised in the income statement | **379** | 676 | **275** | 670 |
| Exchange differences | **147** | (87) | **–** | – |
| Balance at 31 December | **5,687** | 5,846 | **3,150** | 3,560 |

The property rental income earned by the Group from its investment properties, all of which are leased out under operating leases, amounted to $403,000 (2012: $366,000). Direct operating expenses arising on the investment properties in the year amounted to $31,000 (2012: $39,000).

## 14. INVESTMENT PROPERTIES (CONT'D)

The investment properties held by the Group as at 31 December are as follows:

| Property location | Area (sq m) | Usage | Tenure years | Fair value 2013 $'000 | Fair value 2012 $'000 |
|---|---|---|---|---|---|
| Citimac Industrial Complex #02-03 Singapore 368239 | 436 | Warehouse unit | Freehold | **2,350** | 2,350 |
| Poh Leng Building #04-01 21 Moonstone Lane Singapore 328462 | 140 | Flatted factory unit in an industrial building | Freehold | **800** | 680 |
| 118 Pandan Loop Singapore 128323 [2] | 294 | Terrace workshop | 01.7.1993 to 30.6.2023 | **–** | 530 |
| No. 220, Mei Gui Nan Road, Ground Floor Block 20 Shanghai Wai Gao Qiao Free Trade Zone, Shanghai, China | 2,100 | Ground floor warehouse | 12.6.1993 to 12.6.2048 | **1,995** | 1,785 |
| Chengdu Jinniu District, No. 777 Jinfu Road, Block 32 Unit 11 Jin Fu Hardware Centre Chengdu, Sichuan China 610031 [1] | 260 | Warehouse unit | 07.07.2006 to 06.7.2046 | **542** | 501 |
| | | | | **5,687** | 5,846 |

[1] The previously owner-occupied warehouse unit was transferred from property, plant and equipment (Note 11) in 2012 due to change in use.

[2] Transferred to property held for sale and disposed during 2013.

Investment properties are stated at fair value, which has been determined based on valuations performed as at year end. The valuations were performed by independent valuers with a recognised and relevant professional qualification and with recent experience in the location and category of the properties being valued. The valuations were made on the basis of direct comparison with recent transactions of comparable properties within the vicinity.

The Group classified fair value measurement using a fair value hierarchy that reflects the nature and complexity of the significant inputs used in making the measurement. As at end of 31 December 2013, the fair value measurements of the Group's investment properties are classified within Level 3 of the fair value hierarchy. There were no transfers between different levels during the year.

Management considers that certain unobservable inputs used in the fair value measurement of the Group's investment properties are sensitive to the fair value measurement. A change in these inputs will have a corresponding increase/decrease in the fair valuation, such that, an increase in the transacted price of comparable properties, ranging from $903 to $6,000 per square metre for respective investment properties, will lead to an increase in the fair value of the investment properties.

## 15. OTHER INVESTMENTS

| | Group and Company | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| **Available-for-sale** | | |
| Unquoted equity shares at cost | **237** | 237 |

## 16. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| Trade debtors | **15,572** | 14,475 | **8,920** | 8,237 |
| Notes receivables | **1,211** | 1,348 | **–** | – |
| | **16,783** | 15,823 | **8,920** | 8,237 |
| Allowance for doubtful debts – trade debtors | **(893)** | (846) | **(65)** | (8) |
| | **15,890** | 14,977 | **8,855** | 8,229 |
| Amounts due from subsidiaries (Note 12) | **–** | – | **7,500** | 7,874 |
| Amounts due from an associate (Note 13) | **1,796** | 3,103 | **1,789** | 3,095 |
| Other debtors (Note 17) | **222** | 282 | **18** | 24 |
| Amount due from related parties (Note 18) | **2,719** | 2,959 | **893** | 916 |
| Total trade and other receivables | **20,627** | 21,321 | **19,055** | 20,138 |
| Add: | | | | |
| Fixed deposits (Note 25) | **649** | 1,070 | **–** | – |
| Cash at banks and on hand (Note 25) | **4,137** | 4,120 | **1,605** | 1,964 |
| Total financial assets at amortised cost | **25,413** | 26,511 | **20,660** | 22,102 |
| Add: | | | | |
| Available-for-sale investments (Note 15) | **237** | 237 | **237** | 237 |
| Total financial assets | **25,650** | 26,748 | **20,897** | 22,339 |

Trade and other receivables are non-interest bearing and are generally on 30 to 90 days' terms.

Notes receivables are relating to bill of exchange and have an average maturity of up to 180 days (2012: 180 days). These receivables issued by customers are interest-free.

As of 31 December 2013, notes receivables carried by a subsidiary that amounted to $813,000 (2012: $811,000) were pledged to secure short term bank loans.

## 16. TRADE AND OTHER RECEIVABLES (CONT'D)

Receivables that are past due but not impaired

The Group and Company has trade receivables amounting to $5,867,000 (2012: $5,394,000) and $3,355,000 (2012: $2,915,000) respectively that are past due at the reporting date but not impaired because there is no change in credit quality of the customers. These receivables are unsecured and the analysis of their aging by due date at the reporting date is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables past due: | | | | |
| Lesser than 30 days | **3,005** | 2,837 | **1,689** | 1,530 |
| 30 to 60 days | **1,483** | 1,168 | **872** | 596 |
| 61 to 90 days | **912** | 647 | **742** | 330 |
| 91 to 120 days | **251** | 423 | **27** | 299 |
| More than 120 days | **216** | 319 | **25** | 160 |
| | **5,867** | 5,394 | **3,355** | 2,915 |

Receivables that are impaired

The Group has trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

| | Group Individually impaired | | Company Individually impaired | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables | **893** | 846 | **65** | 8 |
| Less: Allowance for impairment | **(893)** | (846) | **(65)** | (8) |
| | **–** | – | **–** | – |
| Movement in allowance accounts: | | | | |
| At 1 January | **846** | 2,859 | **8** | 2,185 |
| Charge for the year | **247** | 351 | **65** | 1 |
| Written off | **(94)** | (2,251) | **(1)** | (2,133) |
| Written back | **(142)** | (86) | **(7)** | (45) |
| Exchange differences | **36** | (27) | **–** | – |
| At 31 December | **893** | 846 | **65** | 8 |

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

Receivables that are neither past due nor impaired are with good credit rating and considered recoverable.

## 17. OTHER DEBTORS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| Sundry debtors | **23** | 17 | **–** | 2 |
| Deposits | **94** | 118 | **18** | 22 |
| Tax recoverable | **105** | 147 | **–** | – |
| | **222** | 282 | **18** | 24 |

## 18. AMOUNTS DUE FROM/TO RELATED PARTIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| **Trade:** | | | | |
| Amounts due from non-controlling shareholder of a subsidiary | **2,585** | 2,558 | **893** | 916 |
| Amounts due from companies in which non-controlling shareholders of a subsidiary have interest in | **119** | 382 | **–** | – |
| **Total** | **2,704** | 2,940 | **893** | 916 |
| **Non-trade:** | | | | |
| Amounts due from non-controlling shareholders of a subsidiary | **15** | 19 | **–** | – |
| **Total** | **15** | 19 | **–** | – |
| Amounts due from related parties | **2,719** | 2,959 | **893** | 916 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| **Trade:** | | | | |
| Amounts due to non-controlling shareholder of a subsidiary | **3,855** | 3,402 | **108** | 134 |
| Amounts due to companies in which non-controlling shareholders of a subsidiary have interest in | **405** | 66 | **–** | – |
| **Total** | **4,260** | 3,468 | **108** | 134 |
| **Non-trade:** | | | | |
| Amounts due to non-controlling shareholders of a subsidiary | **7,972** | 5,993 | **–** | – |
| Amounts due to related parties | **12,232** | 9,461 | **108** | 134 |

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

## 19. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| Finished goods | **80,508** | 87,892 | **37,882** | 41,488 |
| Inventories-in-transit | **1,464** | 1,200 | **1,274** | 215 |
| | **81,972** | 89,092 | **39,156** | 41,703 |

## 20. INTEREST BEARING LOANS AND BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| Repayable within 12 months: | | | | |
| Bank overdraft | | | | |
| – unsecured (Note 25) | **–** | 130 | **–** | – |
| Trust receipts | | | | |
| – secured | **–** | – | **–** | – |
| – unsecured | **6,633** | 4,516 | **6,355** | 4,365 |
| Term loans | | | | |
| – secured | **2,662** | 5,537 | **–** | – |
| – unsecured | **20,717** | 28,965 | **17,302** | 23,386 |
| | **30,012** | 39,148 | **23,657** | 27,751 |
| Repayable after 12 months: | | | | |
| Term loans | | | | |
| – secured | **393** | 327 | **–** | – |
| – unsecured | **6,500** | 7,500 | **6,500** | 7,500 |
| | **6,893** | 7,827 | **6,500** | 7,500 |
| | **36,905** | 46,975 | **30,157** | 35,251 |

Bank borrowings of the subsidiaries are secured on certain freehold and leasehold properties, fixed deposits (Note 25) and receivables of the subsidiaries and corporate guarantee from holding company.

The term loans are repayable in fixed monthly, quarterly or half yearly instalments over a period ranging from 1 month to 36 months. Other borrowings are repayable within twelve months.

The floating rate term loans bear interest of approximately 1.45% to 12% (2012: 1.40% to 12%) per annum, and are repriced on monthly to half-yearly basis.

Trust receipts have an average maturity period of 120 to 150 days (2012: 120 to 150 days) and bear interest ranging from 1.20% to 8.60% (2012: 1.21% to 8.60%) per annum.

## 21. TRADE AND OTHER CREDITORS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 |
| Trade creditors and accruals | **9,141** | 10,467 | **5,049** | 6,090 |
| **Other creditors** | | | | |
| Sundry creditors | **51** | 65 | **29** | 10 |
| Advance from customers | **432** | 458 | **288** | 265 |
| Rental deposit | **49** | 35 | **27** | 33 |
| | **532** | 558 | **344** | 308 |
| Amounts due to related parties (Note 18) | **12,232** | 9,461 | **108** | 134 |
| Loans and borrowings (Note 20) | **36,905** | 46,975 | **30,157** | 35,251 |
| Less: Advance from customers | **(432)** | (458) | **(288)** | (265) |
| Total financial liabilities carried at amortised cost | **58,378** | 67,003 | **35,370** | 41,518 |

Trade and other creditors are non-interest bearing. Trade creditors are normally settled on 30-90 days terms while other creditors are normally settled on 30 days terms.

## 22. DEFERRED TAXATION

Deferred taxation as at 31 December relates to the following:

| | Group | | | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Consolidated statement of financial position** | | **Consolidated income statement** | | **Consolidated equity** | | **Statement of financial position** | | **Equity** | |
| | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Deferred tax liabilities** | | | | | | | | | | |
| Depreciation | **110** | 135 | **(25)** | (39) | **–** | – | **102** | 102 | **–** | – |
| Revaluations to fair value: | | | | | | | | | | |
| – Investment properties | **354** | 287 | **49** | (120)* | **–** | – | **–** | – | **–** | – |
| – Leasehold land and buildings | **1,977** | 1,642 | **–** | – | **332** | 230 | **1,744** | 1,415 | **329** | 160 |
| Other temporary differences | **(69)** | (51) | **(18)** | 28 | **–** | – | **(25)** | (29) | **–** | – |
| | **2,372** | 2,013 | | | **332** | 230 | **1,821** | 1,488 | **329** | 160 |
| Deferred income tax expense (Note 9) | | | **6** | (131) | | | | | | |

* Includes reversal of $145,000 on adoption of Amendments to FRS 12 *Income Tax* in 2012.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is $16,384,000 (2012: $16,194,000). No liability has been recognised in respect of these differences because the group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 22. DEFERRED TAXATION (CONT'D)

**Unrecognised tax losses**

Subject to the agreement by the tax authorities, at the end of the reporting period, the Group has unutilised tax losses of $3,035,000 (2012: $2,413,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

## 23. SHARE CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | '000 | '000 | $'000 | $'000 |
| | **No. of shares** | | | |
| **Issued and fully paid ordinary shares:** | | | | |
| Balance at beginning and end of the year | **234,060** | 234,060 | **31,658** | 31,658 |

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

## 24. DIVIDEND

| | Group and Company | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| **Declared and paid during the financial year:** | | |
| – First and final exempt (one-tier) dividend for 2011: $0.01 per ordinary share | **–** | 2,341 |
| – First and final exempt (one-tier) dividend for 2012: $0.002 per ordinary share | **468** | – |
| | **468** | 2,341 |

**Proposed but not recognised as a liability as at 31 December:**

| | Group and Company | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| *Dividend on ordinary shares, subject to shareholders' approval at the AGM:* | | |
| First and final exempt (one-tier) dividend of $0.002 per ordinary share | **468** | 468 |

## 25. CASH AND CASH EQUIVALENTS

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Cash at banks and on hand | **4,137** | 4,120 |
| Bank overdraft (Note 20) | **–** | (130) |
| Cash and cash equivalents in the consolidated statement of cash flows | **4,137** | 3,990 |

Certain cash at banks earn interest at floating rates based on daily bank deposit rates.

Fixed deposits amounting to $649,000 (2012: $1,070,000) are pledged to banks for short term loan facilities and bank guarantee, and are excluded from cash and cash equivalents. The weighted average effective interest rate of short term deposits is 1.17% (2012: 1.0%) per annum.

## 26. DERIVATIVES

| | Group and Company | | |
|---|---|---|---|
| | **Contract/ Notional Amount** | **Assets** | **Liabilities** |
| | $'000 | $'000 | $'000 |
| **2013** | | | |
| Forward currency contracts | **2,484** | **–** | **(28)** |
| **2012** | | | |
| Forward currency contracts | 349 | – | (1) |

Forward currency contracts are used to manage foreign currency risk arising from the Group's sales and purchases denominated in EUR, JPY and USD.

Net unrealised loss on derivatives of $28,000 (2012: loss of $1,000) has been included in foreign exchange loss in the income statement.

## 27. COMMITMENTS

### (a) Capital commitments

There was no capital expenditure contracted but not recognised in the financial statements as at 31 December 2013 and 2012.

## 27. COMMITMENTS (CONT'D)

### (b) Operating lease commitments

***As lessee***

The Group leases certain properties under lease agreements for operating use. The leases expire at various dates till 2057. Minimum lease payment recognised as an expense in the income statement for the financial year ended 31 December 2013 amounted to $1,075,000 (2012: $1,221,000).

Future minimum lease payments are as follows:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Not later than one year | **864** | 806 |
| Later than one year but not later than five years | **1,266** | 1,007 |
| Later than five years | **5,413** | 5,371 |
| | **7,543** | 7,184 |

***As lessor***

The Group has entered into commercial property leases on its investment properties.

Future minimum lease payments receivable under non-cancellable operating leases as at 31 December are as follows:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Not later than one year | **272** | 215 |
| Later than one year but not later than five years | **109** | 176 |
| | **381** | 391 |

## 28. CORPORATE GUARANTEES

The Company has given corporate guarantees of $17,690,000 (2012: $18,279,000) to financial institutions in connection with financing facilities given to the subsidiaries and associate.

The earliest period that the corporate guarantees could be called is 1 year from 31 December 2013 (2012 : 1 year). Management considers that it is more likely than not that no amount will be payable under the arrangement.

## 29. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group entities with related parties took place during the year at terms and rates agreed between the parties:

### a) Sale and purchase of goods and services

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| Sale of goods to an associate | **176** | 733 |
| Sale of goods to non-controlling shareholder of a subsidiary | **328** | 432 |
| Sale of goods to companies in which non-controlling shareholders of a subsidiary have interest in | **701** | 863 |
| Purchase of goods from non-controlling shareholder of a subsidiary | **808** | 999 |
| Purchase of goods from companies in which non-controlling shareholders of a subsidiary have interest in | **578** | 185 |

### b) Compensation of directors and key management personnel

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | $'000 | $'000 |
| – Directors of the Company | | |
| Short-term benefits | **789** | 901 |
| Post-employment benefits | **10** | 11 |
| – Other directors of subsidiaries | | |
| Short-term benefits | **339** | 339 |
| Post-employment benefits | **22** | 24 |
| – Other key management personnel | | |
| Short-term benefits | **967** | 911 |
| Post-employment benefits | **117** | 70 |

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdraft and cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group may also enter into derivative transactions, including principally interest rate swaps and forward currency contracts as and when it is required. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of financing.

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

### a) Foreign currency risk

The Group has exposure to foreign currency risks as a result of transactions denominated in a currency other than the respective functional currencies of Group entities, arising from sales and purchases, mainly by movements in exchange rates for the United States Dollars (USD). The Group's trade receivable and trade payable balances at the reporting date have similar exposures.

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### a) Foreign currency risk (cont'd)

The Group aims to use forward currency contracts to minimise currency exposures. It is the Group's policy not to enter into forward contracts until a firm payment commitment is in place. The Group reviews regularly the currency exposures and enters into forward contracts as and when deemed necessary.

The Group is also exposed to currency translation risk arising from its net investments in foreign operations, including Malaysia, Indonesia, People's Republic of China (PRC), Taiwan and Hong Kong. The Group's investments are not hedged as currency positions in the subsidiaries are considered to be long term in nature.

Significant financial assets of the Group and Company that are not denominated in the functional currencies of the respective entities amounted to $7,530,000 (2012: $4,289,000) and $6,853,000 (2012: $3,356,000) respectively denominated in United States dollars.

Significant financial liabilities of the Group and Company that are not denominated in the functional currencies of the respective entities amounted to $6,383,000 (2012: $11,451,000) and $4,949,000 (2012: $4,932,000) respectively denominated in United States dollars.

The sensitivity rate used is 5% which is the change in foreign exchange rate that Management deems reasonably possible which will affect outstanding foreign currency denominated monetary items at period end.

For the Company, if the United States dollars was to strengthen/weaken by 5% against the Singapore dollar, profit before tax will increase/decrease by $95,200 (2012: decrease/increase by $78,800).

For the Group, if the United States dollar was to strengthen/weaken by 5% against the Singapore dollar, profit before tax will increase/decrease by $57,000 (2012: decrease/increase by $358,000).

### b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from interest bearing loans and borrowings.

Sensitivity analysis for interest rate risk

If interest rates had been 100 basis points higher or lower with all other variables were held constant, the Group's profit for the financial year ended December 31, 2013 would decrease/increase by $297,000 (2012: $383,000).

### c) Credit risk

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

Exposure to credit risk

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

– the carrying amount of each class of financial assets gross for any allowance for losses recognised in the statements of financial position and

– a nominal amount of $17,690,000 (2012: $18,279,000) relating to corporate guarantees by the Company to financial institutions in connection with the financing facilities given to the subsidiaries and associate.

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### d) Liquidity risk

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

The Group's and the Company's liquidity risk management policy is to maintain sufficient liquid financial assets and stand-by credit facilities with various banks.

**Analysis of financial instruments by remaining contractual maturities**

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

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | One year or less | More than one year up to five years | Adjustments | Total | One year or less | More than one year up to five years | Adjustments | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | | | | |
| Non-interest bearing | **21,473** | **–** | **–** | **21,473** | 20,028 | – | – | 20,028 |
| Variable interest rate instruments (Note 20) | **30,012** | **7,094** | **(201)** | **36,905** | 39,148 | 8,002 | (175) | 46,975 |
| | **51,485** | **7,094** | **(201)** | **58,378** | 59,176 | 8,002 | (175) | 67,003 |
| **Company** | | | | | | | | |
| Non-interest bearing | **5,213** | **–** | **–** | **5,213** | 6,267 | – | – | 6,267 |
| Variable interest rate instruments (Note 20) | **23,657** | **6,669** | **(169)** | **30,157** | 27,751 | 7,650 | (150) | 35,251 |
| | **28,870** | **6,669** | **(169)** | **35,370** | 34,018 | 7,650 | (150) | 41,518 |

The maximum amount of the corporate guarantee provided by the Company to its subsidiaries are allocated to the earliest period in which the guarantee could be called are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | One year or less | Total | One year or less | Total |
| | $'000 | $'000 | $'000 | $'000 |
| **Company** | | | | |
| Corporate guarantees | **17,690** | 17,690 | **18,279** | 18,279 |

Non-derivative financial assets

The Group's and Company's non-derivative financial assets are due on demand and interest free.

The Group is exposed to interest rate risk on its fixed deposits. No sensitivity analysis is prepared on the Group's financial assets as the management does not expect any material effect on the Group's profit or loss arising from the effects of reasonably possible changes to interest rates on interest bearing financial assets at the end of the reporting period.

## 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

*A. Fair value of financial instruments that are carried at fair value*

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

| | 2013 $'000 | | | |
|---|---|---|---|---|
| | **(Level 1)** | **(Level 2)** | **(Level 3)** | **Total** |
| Financial liabilities: | | | | |
| Derivatives (Note 26) | | | | |
| – Forward currency contracts | **–** | **(28)** | **–** | **(28)** |
| At 31 December 2013 | **–** | **(28)** | **–** | **(28)** |

| | 2012 $'000 | | | |
|---|---|---|---|---|
| | **(Level 1)** | **(Level 2)** | **(Level 3)** | **Total** |
| Financial liabilities: | | | | |
| Derivatives (Note 26) | | | | |
| – Forward currency contracts | – | (1) | – | (1) |
| At 31 December 2012 | – | (1) | – | (1) |

The fair value of forward foreign exchange contracts is determined using quoted forward currency rates at the reporting date. Accordingly, these investments are classified as Level 2.

There were no transfer between Level 1 and Level 2 of the fair value hierarchy in 2013 and 2012.

*B. Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value*

Management has determined that the carrying amounts of cash and short term deposits, trade and other receivables, bank borrowings, trade and other payables, amount due from an associate, amount due from/to related parties and bank loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are re-priced frequently.

Fair value information has not been disclosed for the Group and Company's investment for unquoted equity that was carried at cost because the fair value cannot be measured reliably. The unquoted equity represents ordinary shares in Poh Leng Realty Pte Ltd that are not quoted on any market. In the opinion of the Directors, the expected cash flows from these investments are believed to be in excess of their carrying amounts.

## 32. CAPITAL MANAGEMENT

The capital structure of the Group consists of equity attributable to owners of the parent, comprising issued capital, reserves and retained earnings.

The Group manages its capital and structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

## 33. SUBSEQUENT EVENT

The Company increased its shareholding in its subsidiary, PT. Kian Ho Indonesia, from 80% to 95% through the acquisition of 54 shares from a minority shareholder for a consideration of $1 on 22 January 2014.

# SUPPLEMENTARY INFORMATION

For the financial year ended 31 December 2013

## INTERESTED PERSON TRANSACTIONS

The Company does not have a shareholders' mandate pursuant to Rule 920 for recurrent transactions of revenue or trading nature or those necessary for its day-to-day operations such as the sale and purchase of supplies and materials. However, during the financial year under review, there were interested person transactions and the value of these individual transactions was less than $100,000, as follows:

| Name of Interested Person | Particulars of the Transactions | Aggregate value of all interested person transactions during the financial year under review | Note |
|---|---|---|---|
| Tat Hong Holdings Ltd Group | Sale of goods | $14,115 | |
| KHB Holdings Pte Ltd | Rental expenses for premises at 204 & 206 Jalan Besar | $120,000 | 1 |
| Teo Xian-Hui Amanda Marie | Rental expenses for premises at 5th floor, Sapphire Tower No.267 Tianmu Zhong Road, Shanghai | $153,820 | 2 |
| Poh Leng Realty Pte Ltd | Director's fees for Mr. Kwek Che Yong | $2,526 | 3 |
| VIG Systems Pte Ltd | Purchase of services and fire protection equipment | $28,390 | 4 |

1. The rental of the premises is based on a signed agreement between KHB Holdings Pte Ltd and Kian Ho Bearings Ltd of which the rental amount is determined based on market rate.

2. The rental of the premises is based on a signed agreement between Teo Xian-Hui Amanda Marie and Acker Machinery (Shanghai) Co., Ltd of which the rental amount is determined based on market rate.

3. Mr Kwek Che Yong, a director of Kian Ho Bearings Ltd, is also a director of Poh Leng Realty Pte Ltd, which is an investment of the Company.

4. The purchase of services and fire protection equipment is based on a maintenance contract between VIG systems and Kian Ho Bearings Ltd of which the services are determined based on market rate.

# SHAREHOLDERS' INFORMATION

As at 3 April 2014

| Class of equity securities | Number of equity securities | Voting Rights |
|---|---|---|
| Ordinary Shares | 234,060,000 | One vote per share |

There are no treasury shares held in the issued capital of the Company.

**STATISTICS OF SHAREHOLDINGS**

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | % | NO. OF SHARES | % |
|---|---|---|---|---|
| 1 – 999 | 265 | 7.90 | 93,233 | 0.04 |
| 1,000 – 10,000 | 2,250 | 67.10 | 9,581,571 | 4.09 |
| 10,001 – 1,000,000 | 817 | 24.37 | 36,683,464 | 15.67 |
| 1,000,001 AND ABOVE | 21 | 0.63 | 187,701,732 | 80.20 |
| **TOTAL** | **3,353** | **100.00** | **234,060,000** | **100.00** |

**SUBSTANTIAL SHAREHOLDERS AS AT 3 APRIL 2014**
(As recorded in the Register of Substantial Shareholders)

| | Direct Interest | % | Deemed Interest | % |
|---|---|---|---|---|
| KHB Holdings Pte Ltd | 27,659,700 | 11.82 | – | – |
| Kwek Che Yong (Note 1) | 1,193,000 | 0.5 | 27,659,700 | 11.82 |
| Teo Xian-Hui Amanda Marie | 33,512,000 | 14.32 | – | – |
| Tat Hong Holdings Ltd (Note 2) | 1,681,000 | 0.72 | 71,511,000 | 30.55 |
| Chwee Cheng & Sons Pte Ltd (Note 3) | – | – | 73,192,000 | 31.27 |
| Ng Sun Ho (Note 4) | – | – | 73,192,000 | 31.27 |

**Notes:–**

(1) Mr Kwek Che Yong is deemed interested through KHB Holdings Pte Ltd.

(2) Tat Hong Holdings Ltd is deemed interested through CIMB Securities (Singapore) Pte. Ltd. and Maybank Kim Eng Securities Pte Ltd.

(3) Chwee Cheng & Sons Pte Ltd is deemed interested through Tat Hong Holdings Ltd.

(4) Ng Sun Ho is deemed interested through Tat Hong Holdings Ltd.

# SHAREHOLDERS' INFORMATION

As at 3 April 2014

## TWENTY LARGEST SHAREHOLDERS

| No | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 1 | CIMB SECURITIES (SINGAPORE) PTE. LTD. | 69,726,000 | 29.79 |
| 2 | TEO XIAN-HUI AMANDA MARIE (ZHANG XIANHUI AMANDA MARIE) | 33,512,000 | 14.32 |
| 3 | HONG LEONG FINANCE NOMINEES PTE LTD | 23,458,000 | 10.02 |
| 4 | TEO TECK YAO GLENN ASHLEY (ZHANG DEYAO) | 9,076,000 | 3.88 |
| 5 | CITIBANK CONSUMER NOMINEES PTE LTD | 6,045,000 | 2.58 |
| 6 | DBS NOMINEES (PRIVATE) LIMITED | 5,622,400 | 2.40 |
| 7 | SBS NOMINEES PRIVATE LIMITED | 5,510,000 | 2.35 |
| 8 | TEO TENG BENG | 5,207,000 | 2.22 |
| 9 | MAYBANK KIM ENG SECURITIES PTE. LTD. | 3,893,515 | 1.66 |
| 10 | UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED | 3,835,300 | 1.64 |
| 11 | PHILLIP SECURITIES PTE LTD | 3,642,424 | 1.56 |
| 12 | HOKIMAN TJENDERA | 2,654,000 | 1.13 |
| 13 | OCBC NOMINEES SINGAPORE PRIVATE LIMITED | 2,362,200 | 1.01 |
| 14 | KWOK LO CHU | 2,150,000 | 0.92 |
| 15 | TAN TECK WAH | 2,149,000 | 0.92 |
| 16 | TAT HONG HOLDINGS LTD | 1,681,000 | 0.72 |
| 17 | YAM KAH HENG | 1,652,000 | 0.71 |
| 18 | SUWANTI | 1,557,000 | 0.67 |
| 19 | LIM JOO BOON | 1,500,000 | 0.64 |
| 20 | OCBC SECURITIES PRIVATE LIMITED | 1,275,893 | 0.55 |
| | **TOTAL** | **186,508,732** | **79.69** |

## PERCENTAGE OF SHAREHOLDINGS IN PUBLIC'S HANDS

32% of the Company's Shares are held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

# NOTICE OF ANNUAL GENERAL MEETING

## KIAN HO BEARINGS LTD

(Company Registration No. 197302030N)
(Incorporated in Singapore with limited liability)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Kian Ho Bearings Ltd ("the Company") will be held at 5 Changi South Street 3, Singapore 486117 on Monday, 28 April 2014 at 10am for the following purposes:

**AS ORDINARY BUSINESS**

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2013 together with the Auditors' Report thereon.

**(Resolution 1)**

2. To declare a first and final tax exempt one-tier dividend of 0.2 Singapore cent per ordinary share for the year ended 31 December 2013 (2012: final dividend of 0.2 Singapore cent per ordinary share).

**(Resolution 2)**

3.(a) To re-elect Mr Kwek Che Yong, the Director retiring pursuant to Article 89 of the Articles of Association of the Company.

*Mr Kwek Che Yong is an executive director and will upon re-election as a Director of the Company, remain as the Deputy Chairman of the Board.*

**(Resolution 3)**

(b) To re-elect Mr Teh Geok Koon, the Director retiring pursuant to Article 88 of the Articles of Association of the Company.

*Mr Teh Geok Koon is an executive director cum Chief Operating Officer of the Company.*

**(Resolution 4)**

(c) To re-elect Mr Tan Saik Hock, the Director retiring pursuant to Article 88 of the Articles of Association of the Company.

*Mr Tan Saik Hock is an independent director and will, upon re-election as a Director of the Company, remain as the Chairman of the Nominating and Remuneration Committees and a member of the Audit Committee.*

**(Resolution 5)**

4. To approve the payment of Directors' Fees of S$145,001 for the year ended 31 December 2013 (2012: S$193,733/-).

**(Resolution 6)**

5. To re-appoint Messrs Deloitte & Touche LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration.

**(Resolution 7)**

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

**AS SPECIAL BUSINESS**

To consider and if thought fit, to pass the following Ordinary Resolution, with or without any modification:

7. **Authority to issue shares up to 50 per centum (50%) of the total number of issued shares in the capital of the Company**

"THAT pursuant to Section 161 of the Companies Act, Cap. 50 and the Listing Manual of Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the Directors of the Company to:–

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

(ii) make or grant offers, agreements or options or other instruments convertible into shares (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) options, warrants, debentures or other instruments convertible into shares,

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

provided that:–

(A) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution does not exceed 50 per cent (50%) of the total number of issued shares excluding treasury shares (as calculated in accordance with sub-paragraph (B) below), of which the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued other than on a pro rata basis to existing shareholders of the Company does not exceed 20 per cent (20%) of the total number of issued shares excluding treasury shares (as calculated in accordance with sub-paragraph (B) below);

(B) (subject to such manner of calculation as may be prescribed by SGX-ST), for the purpose of determining the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) that may be issued under sub-paragraph (A) above, the percentage of issued shares excluding treasury shares shall be based on the total number of issued shares excluding treasury shares at the time of the passing of this Resolution, after adjusting for:–

a. new shares arising from the conversion or exercise of any convertible securities, new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of passing of the resolution approving this Resolution provided the options or awards were granted in compliance with requirements prescribed by SGX-ST; and

b. any subsequent bonus issue, consolidation or subdivision of shares;

(C) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of SGX-ST for the time being in force (unless such compliance has been waived by SGX-ST) and the Articles of Association of the Company; and

(D) 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." [See Explanatory Note]

**(Resolution 8)**

By Order of the Board

Jennifer Lee Siew Jee
Secretary

Singapore, 11 April 2014

**Explanatory Note to Resolution 8**

The proposed Ordinary Resolution 8, if passed, will empower the Directors of the Company from the date of the above Meeting to issue shares in the Company up to an amount not exceeding in total 50 per centum of the total number of issued shares in the capital of the Company with a sub-limit of 20% other than on a pro-rata basis to shareholders for the time being for such purposes as they consider would be in the interests of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

**Notes:**

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

2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 5 Changi South Street 3, Singapore 486117 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

**NOTICE OF BOOK CLOSURE**

**NOTICE IS HEREBY GIVEN** that the Share Transfer Books and Register of Members of Kian Ho Bearings Ltd will be closed at 5.00 p.m. on 9 May 2014 for the preparation of Final Dividend entitlement and shall reopen on 12 May 2014.

Duly completed transfers received by the Company's Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 up to 5.00 p.m. on 9 May 2014 will be registered to determine shareholders' entitlements to the said dividend. Members whose securities accounts with The Central Depository (Pte) Limited are credited with shares at 5.00 p.m. on 9 May 2014 will be entitled to the proposed dividend.

Payment of the dividend, if approved by the members at the AGM to be held on 28 April 2014, will be made on 21 May 2014.

**IMPORTANT:**

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

# KIAN HO BEARINGS LTD

(Company Registration No. 197302030N)
(Incorporated In The Republic of Singapore)

# PROXY FORM

*(Please see notes overleaf before completing this Form)*

I/We, _____

of _____

being a member/members of Kian Ho Bearings Ltd (the "Company"), hereby appoint:

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

and/or (delete as appropriate)

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

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held on Monday, 28 April 2014 at 10am and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

**(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)**

| **No.** | **Resolutions relating to:** | **For** | **Against** |
|---|---|---|---|
| 1 | Directors' Report and Audited Accounts for the year ended 31 December 2013 | | |
| 2 | Payment of proposed first and final dividend of 0.2 Singapore cent per share for the year ended 31 December 2013 | | |
| 3 | Re-election of Mr Kwek Che Yong as a Director | | |
| 4 | Re-election of Mr Teh Geok Koon as a Director | | |
| 5 | Re-election of Mr Tan Saik Hock as a Director | | |
| 6 | Approval of Directors' Fees of S$145,001/– for the year ended 31 December 2013 | | |
| 7 | Re-appointment of Messrs Deloitte & Touche LLP as Auditors | | |
| 8 | Authority to issue shares | | |

Dated this _____ day of _____ 2014

| **Total number of Shares in:** | **No. of Shares** |
|---|---|
| (a) CDP Register | |
| (b) Register of Members | |

_____

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

*Delete where inapplicable

**Notes:**

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

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

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

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

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 5 Changi South Street 3, Singapore 486117 not less than 48 hours before the time appointed for the Meeting.

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

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

**General:**

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

# CORPORATE INFORMATION

**DIRECTORS**
Yeo Wee Kiong *(Independent Chairman)*
Kwek Che Yong *(Deputy Chairman)*
Teo Teng Beng *(Managing Director)*
Teh Geok Koon *(Executive Director cum Chief Operating Officer)*
Lee Joo Hai *(Independent Director)*
Tan Saik Hock *(Independent Director)*

**AUDIT COMMITTEE**
Lee Joo Hai *(Chairman)*
Tan Saik Hock
Yeo Wee Kiong

**NOMINATING COMMITTEE**
Tan Saik Hock *(Chairman)*
Lee Joo Hai
Teo Teng Beng

**REMUNERATION COMMITTEE**
Tan Saik Hock *(Chairman)*
Lee Joo Hai
Yeo Wee Kiong

**COMPANY SECRETARY**
Jennifer Lee Siew Jee

**REGISTERED OFFICE**
5 Changi South Street 3
Singapore 486117
Tel: 6287-5866
Fax: 6545-4517

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

**AUDITORS**
Deloitte & Touche LLP
(Public Accountants and
Chartered Accountants)
6 Shenton Way
#32-00 OUE Downtown Two
Singapore 068809
Tel: 6224-8288
Fax: 6538-6166
Partner in charge:
Lee Boon Teck
(Since financial year
31 December 2011)

**HEAD OFFICE**
**SINGAPORE**
**Kian Ho Bearings Ltd**
5 Changi South Street 3
Singapore 486117
Tel: (65) 6287-5866
Fax: (65) 6285-9852 / 3
Website: http://www.kianho.com.sg
E-mail: sales@kianho.com.sg

**BRANCHES**
204/206 Jalan Besar
Singapore 208892
Tel: (65) 6298-5866, 6298-9582
Fax: (65) 6294-7755

27A Jurong Port Road
#01- 42 Singapore 619101
Tel: (65) 6268-3410 / 1, 6268-4672
Fax: (65) 6266-3367

77 Rangoon Road
Singapore 218365
Tel: (65) 6299 3988
Fax: (65) 6297 5348

Blk A1, 387F Woodlands Road
Yew Tee Industrial Estate
Singapore 677951
Tel: (65) 6893 9808
Fax: (65) 6893 2808

**OVERSEAS ESTABLISHMENTS**

**MALAYSIA**
**Kian Ho Bearings (M) Sdn Bhd**

**Johor**
43 Jalan Glasiar Taman Tasek
80200 Johor Baru, Malaysia
Tel: (07) 237-2288
Fax: (07) 237-4996

111 Jalan Mutiara Emas 10/19
Taman Mount Austin
81100 Johor Bahru, Malaysia
Tel: (07) 361-6028
Fax: (07) 361-5766

**Kuala Lumpur**
Modules 0009-0011
Kompleks Sentral
33, Jalan Segambut Atas
51200 Kuala Lumpur
Tel: (03) 6251-8828
Fax: (03) 6251-8818

**Kluang**
63 Jalan Lim Swee Sim
Kluang Baru
86000 Kluang, Malaysia
Tel: (07) 772-1636, 772-8922
Fax: (07) 772-8921

**Penang**
47 (1st Floor), Jalan Todak 4
Bandar Sunway
13700 Seberang Jaya Prai, Malaysia
Tel: (04) 398-8828
Fax: (04) 398-6618

**Selangor**
**KWP Engineering & Industrial Supply Sdn. Bhd.**
196A Jalan Sentosa 53
Off Jalan Sg. Putus
41050 Klang
Selangor Darul Shsan
Malaysia
Tel: (03) 3341 8977 / 3342 8977
Fax: (03) 3343 1977

**TAIWAN**
**Taipei**
**Ascend Bearings Co., Ltd.**
1F. No.30, Ln.91, Sec.2, Chengde Road
Datong District, Taipei City 10353
Taiwan R.O.C.
Tel: (886) 2-2559-1166
Fax: (886) 2-2552-6333

**CHINA**
**Shanghai**
**Kian Ho Shanghai Co., Ltd /**
**Acker Machinery (Shanghai) Co., Ltd**
Tian Mu Zhong Road
No. 267, 5th Floor
The Sapphire Tower
Shanghai, China
Tel: (86) 21-5187 6293
Fax: (86) 21-5101 5836

**Guangzhou**
**Kian Ho Guangzhou Co., Ltd**
Room 2703, North Tower
New World Times Centre
No. 2193 Guang Yuan East Rd
Guangzhou, China
Tel: (86) 20-8722 5255
Fax: (86) 20-8779 7122

**HONG KONG**
**Kian Ho (H.K.) Company Limited**
Workshop no. N, 12/F.
Wing Hong Factory Building
18 – 26 Kwai Fung Crescent
Kwai Chung, N.T., H.K.
Tel: (852) 2785 3669
Fax: (852) 2785 9661

**INDONESIA**
**PT.Kian Ho Indonesia**

**Jakarta**
Jl. Balikpapan Raya No. 19A
Jakarta Pusat 10160
Indonesia
Tel: (62) 21 3512281-82
Fax: (62) 21 3456970

**Batam**
Komplek Penuin Centre Blok E
No. 4 Batam 29436
Indonesia
Tel: (62) 778 427572
Fax: (62) 778 455370

**VIETNAM**
**Kian Ho (Vietnam) Co., Ltd**
No.66, C18 Street (K300 zone, Cong Hoa),
Tan Binh Dist.,
Ho Chi Minh City, Vietnam
Tel: (84) 8 3948 1560
Fax: (84) 8 3811 8749

**Hanoi representative office**
No.6, Alley 76/6, Nguyen Chi Thanh Street
Dong Da District, Ha Noi city, Vietnam
Tel: (84) 4 3259 5552
Fax: (84) 4 3259 5553

**AUSTRALIA**
**KH Bearings and Seals Australia Pty Ltd**
Unit 2, 15 Bonz Place
Seven Hills NSW 2147
Tel: (61) 0 2 9604 5904
Fax: (61) 0 2 9604 5973

**THAILAND**
**Kian Ho (Thailand) Co., Ltd /**
**Kian Ho Bearings (Thailand) Co., Ltd**
99/8 Moo 13 T. Bangkaew,
A. Bangplee,
Samutprakarn 10540 Thailand
Tel: (66) 02-728 4622
Fax: (66) 02-728 4627

KIAN HO BEARINGS LTD
建 和 轴 承 有 限 公 司

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