# DETERMINED & COMMITTED TO STAY THE COURSE

Annual Report 2008

IFS Capital Limited

Annual Report 2008

IFS Capital Limited

# Table of Contents



IFS Capital Limited ("IFS") is an established financial institution involved in commercial and structured finance, private equity investments as well as credit insurance and guarantees. Incorporated in Singapore in 1987, the company was listed on the Mainboard of the Singapore Exchange in July 1993. IFS also has operations in Malaysia, Indonesia and Thailand.

## Mission Statement

To be an innovative regional financial solutions provider for our clients, committed to service excellence and creating value for shareholders, management and staff.

# Chairman's Statement

*2008 saw the advent of the full blown credit crisis and the resultant global slowdown. Our results last year reflect this.*

*Earlier in 2007 we reduced reliance on financial markets by disposing off most of our equity positions held in the Group. This was followed in 2008 by steps to protect our credit positions. Following a special review by management, we have modified our credit products adopting a more stringent and rigorous approach. While certain products were suitable in a growth environment, it is clear that we have to adapt in a slowdown. As a result, we have restrained expansion in certain lending products.*

*The need for strong and prudent capital management has necessitated reducing our dividend payout. We are proposing a final dividend of one cent which together with the interim dividend of one cent paid, is lower than the exceptional 6.25 cents paid previously.*

## Review of 2008 performance

Our income was affected by the deterioration in market conditions.

Group net profit after tax for the financial year ended 31 December 2008 was $8.0 million, a decline of 38%, as compared to $12.9 million in 2007. The severe economic downturn together with our cautious approach in our lending and insurance activities, resulted in a decline of the Group's operating income from its commercial finance and insurance subsidiary as well as fee-based activities and investment income. The decline in the Singapore operations was however, ameliorated by the better performance achieved by our regional operations with profit contributions from overseas subsidiaries and associated companies growing from $1.2 million in 2007 to $2.3 million in 2008.

2008 saw the advent of the full blown credit crisis and the resultant global slowdown. Our results last year reflect this.

Net interest income declined 16% to $11.1 million as compared to a year ago, due to loan repayments and lower factoring funds-in-use as well as lower significant interest recoveries from non-performing loans in 2008. Excluding the one-off interest recoveries in 2007, net interest income for 2008 increased by 6%, reflecting an improvement in net interest margin from 3.2% to 3.5%. The Group's loan and factoring receivables outstanding as at 31 December 2008 stood at $342.1 million as compared to $417.9 million as at 31 December 2007.

Net earned premium revenue from ECICS declined by 40% to $3.8 million from $6.4 million partly due to lower business volume and higher unexpired risks reserves required for insurance policies in force at the reporting date. There was also a write back of excess provision upon the settlement of an insurance claim resulting in a reversal of net claim of $1.1 million to the income compared to a charge of $2.1 million for the previous year. I am pleased to note that as at 31 December 2008, ECICS' Capital Adequacy Requirement was substantially above the regulatory requirement of 120%.

Non-interest income comprising fees, commission, investment and other income at $11.3 million were 28% lower than previously. The lower fee and commission income was due to reduced factoring volume and insurance business while the lower investment income was attributed to lower divestment gain and fair value loss on financial assets affected by the global financial crisis. Included in the "Other Income" is an amount of $907,000 relating to a write back of provision for contingent liability of a tax indemnity no longer required by a subsidiary.

Cost control initiatives have resulted in a decrease of 4% in total operating expenses to $15.1 million. Staff costs declined by 6% due to lower bonus provisions and there was a decrease in commission paid to intermediaries and other general administrative expenses.

Total allowances for loan losses and impairment of investments increased slightly by 2% to $6.2 million in 2008 as compared to $6.1 million in 2007. The increase in the allowances for loan losses and impairment of investments resulted mainly from the higher impairment set aside for the Group's debt securities available-for-sale.

All companies in the Group were profitable last year. Thailand reported a historical high profit after tax of Baht71 million (S$3.0 million). Malaysia reported profit after tax of Ringgit330,000 (S$140,000) and Indonesia reported Rupiah1,837 million (S$268,000). This is an important achievement as Malaysia and Indonesia were traditionally cost centers. It is pleasing to note that under our direct management and control, our subsidiaries have performed better than expected.

# Chairman's Statement

The prudential approach towards lending resulted in a reduction in our loans and factoring receivables. The attendant liquidity was applied towards reducing our gearing. During the year, our Singapore operations repaid or redeemed borrowings of $63.9 million. Our gearing fell significantly from 2.1 times in 2007 to 1.7 times by end 2008.

The Group earnings per share was 6.4 cents and return on equity was 6.5% while net asset value per share was at 97.3 cents as at 31 December 2008. This was down from the previous year. Our cost-to-income ratio was 55.6% as compared to 42.5% in 2007.

## Capital management and credit controls

In view of deteriorating market conditions, we will be emphasizing on capital management and credit controls. We have brought our gearing down substantially as earlier mentioned and where prudency dictates, we will maintain a high liquidity buffer. Towards this end, we have adopted liquidity measures across the board following the banking model of maintaining reserve assets. Our lending products will be shifted towards the shorter end. While we are still active in our Structured Finance and Alternative Finance business units, our investment would have a shorter time to exit horizon, with emphasis on liquid markets or assets.

## The future

The economic downturn does not show signs of an immediate upturn and we have to be prepared for this. While there are still opportunistic investments, expected returns have to be higher to compensate for the higher risks. We have increased our pricing across the board late last year. Both our net interest margins and expected investment returns reflect current economic reality. While this will lead to a drop in business, we believe that the increased pricing will make up for the reduced volumes.

Our emphasis on capital management and credit controls will benefit us when the economy recovers.

On behalf of the Board and management I would like to thank once again all staff, clients and shareholders. It is because of you that we in IFS can continue to serve.

Lim Hua Min
Chairman
26 February 2009

# Corporate Information

## BOARD OF DIRECTORS
Lim Hua Min
  Chairman
Gabriel Teo Chen Thye
Lim How Teck
Manu Bhaskaran
Kwah Thiam Hock
Lee Soon Kie
  Executive Director and
  Chief Executive Officer

## AUDIT COMMITTEE
Gabriel Teo Chen Thye
  Chairman
Lim How Teck
Manu Bhaskaran

## EXECUTIVE RESOURCE AND COMPENSATION COMMITTEE
Lim How Teck
  Chairman
Lim Hua Min
Gabriel Teo Chen Thye

## MANAGEMENT COMMITTEE
Lee Soon Kie
  Chairman
Wong Chin Kheng
Lim Mui Ling
Chionh Yi Chian
Teoh Chun Mooi

## CREDIT COMMITTEE
Lee Soon Kie
  Chairman
Wong Chin Kheng
Teoh Chun Mooi
Chionh Yi Chian
  (Alternate: Ee Sin Soo)
Phyllis Chiu

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

## REGISTRAR
**M & C Services Private Limited**
138 Robinson Road #17-00
The Corporate Office
Singapore 068906

## COMPANY SECRETARY
Chionh Yi Chian

## AUDITORS
**KPMG LLP**
Certified Public Accountants
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

**Partner-In-Charge**
Gerald Low Gin Cheng
(since FY2005)

# Board of Directors

## Lim Hua Min

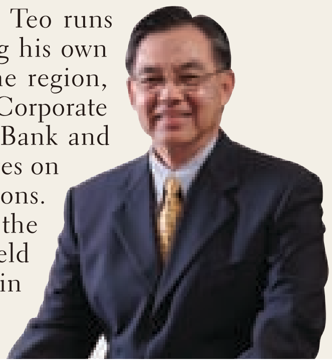
*Chairman*

Lim Hua Min was appointed Chairman of IFS Capital Limited ("IFS") on 20 May 2003. Mr Lim is concurrently the Executive Chairman of the PhillipCapital Group of Companies. He began his career holding senior positions in the Stock Exchange of Singapore ("SES") and the Securities Research Institute. He has served on a number of committees and sub-committees of SES. In 1997, he was appointed Chairman of SES Review Committee, which was responsible for devising a conceptual framework to make Singapore's capital markets more globalised, competitive and robust. For this service, he was awarded the Public Service Medal in 1999 by the Singapore Government. Currently, he serves as a board member in the Inland Revenue Authority of Singapore. Mr Lim holds a Bachelor of Science Degree (Honours) in Chemical Engineering from the University of Surrey and obtained a Master's Degree in Operations Research and Management Studies from Imperial College, London University.

## Gabriel Teo Chen Thye

*Director*

Gabriel Teo has been a Director of IFS since November 1999. Mr Teo runs his own consultancy firm, Gabriel Teo & Associates. Prior to starting his own practice, he spent more than 20 years in the banking industry in the region, holding senior appointments with global institutions. He was Head of Corporate Banking at Citibank, Chief Executive Officer of Chase Manhattan Bank and Regional Managing Director of Bankers Trust. Currently, he also serves on the boards of several other corporates as well as non-profit organisations. Mr Teo holds a Bachelor of Business Administration degree from the National University of Singapore and an MBA in Finance from Cranfield School of Management. He has also attended the Executive Program in Management at Columbia Business School.



## Lim How Teck

*Director*

Lim How Teck was appointed a Director of IFS in June 2000. Mr Lim had been with the NOL Group of Companies since 1979, retiring as Executive Director and Group Chief Financial Officer of NOL in June 2005. He is currently Chairman of Certis CISCO Security Pte Ltd and Redwood International Pte Ltd, a consultancy and investment company. He is also Deputy Chairman of Tuas Power Ltd and a director of several other organisations. Mr Lim was awarded the Public Service Medal (Pingat Bakti Masyarakat) National Day Award in 1999, the Service Education Medal (Ministry of Education) in 2000 and 2002 and The Good Service Medal (Singapore Civil Defence Force) in 1996.

## Manu Bhaskaran

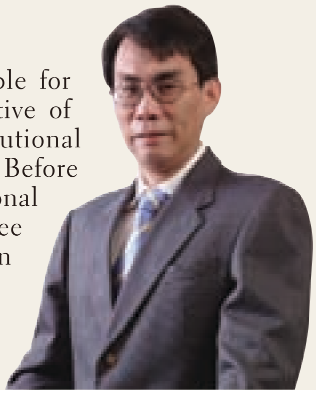
*Director*

Manu Bhaskaran is Partner and Head Economic Research at the Centennial Group, a Washington DC-based strategic advisory group. Mr Manu Bhaskaran was first appointed as a Director of IFS in June 2002. He resigned on 20 May 2003 and was re-appointed as a Director on 26 February 2004. He was appointed as Chairman of EH Group Ltd., which was then a substantial shareholder of IFS on 22 December 2003. He was also appointed as Director of IFS' wholly-owned subsidiary, ECICS Limited in May 2007 and also serves on the boards of the Centennial Group, CIMB-GK Pte Ltd and Koyo International Limited (previously known as Cyber Village Holdings Limited). In addition, he is Vice-President of the Economics Society of Singapore and Council Member of the Singapore Institute of International Affairs. Mr Manu Bhaskaran is an adjunct senior research fellow at the Institute of Policy Studies. He was formerly Managing Director and Chief Economist of SG Securities Asia Ltd.

## Lee Soon Kie

*Executive Director*

Lee Soon Kie is the Group Chief Executive Officer of IFS and is responsible for the overall management of the Group. Prior to IFS, he was a senior executive of the PhillipCapital Group of Companies where he was in charge of institutional business involving mergers and acquisitions and debt capital markets business. Before PhillipCapital, Mr Lee held various senior appointments with an international investment banking group — Schroders. Mr Lee holds a Bachelor of Arts Degree from the National University of Singapore and a Master of Science Degree in Computer Science (Distinction) from the University of Wales, Aberystwyth.



## Kwah Thiam Hock

*Director*

Kwah Thiam Hock was an Executive Director of IFS and Chief Executive Officer/Principal Officer of IFS' wholly-owned subsidiary, ECICS Limited from June 2003 to December 2006. Mr Kwah retired as Executive Director of IFS and ECICS but remain as Non-Executive Director of both IFS and ECICS. Effective July 2007, Mr Kwah is an Advisor and Principal Officer of ECICS. He is currently an Independent Director of Wilmar International Limited, Select Group Limited, Excelpoint Technology Limited and Swissco International Limited. He is also a member of Singapore Turf Club Management Committee and a member of the Audit Committee of Singapore Totalisation Board. Mr Kwah is a Fellow Member of the Australian Society of Accountants and also a Fellow Member of the Institute of Certified Public Accountants of Singapore and a Fellow Member of the Association of Chartered Certified Accountants (UK).

# Management Team

## LEE SOON KIE
*Group Chief Executive Officer*

## WONG CHIN KHENG
*Group General Manager, Overseas Operations*

Mr Wong was appointed Group General Manager in January 2007 and is presently responsible for the Group's overseas operations. He sits on the Boards of Directors of the IFS Capital (Thailand) PCL, IFS Capital (Malaysia) Sdn. Bhd. and IFS Capital (Hong Kong) Limited as well as being a member of the Board of Commissioner of PT. IFS Capital Indonesia in November 2005. In October 2005, Mr Wong became a Director of the IFG, a world wide factoring association based in Brussels. Prior to joining the Group in May 1995, he held appointments in the Bank of Montreal, Royal Trust Merchant Bank Ltd and Hong Leong Finance Ltd. Mr Wong holds a Bachelor of Social Science (Honours) degree from the University of Singapore.

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

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

## CHIONH YI CHIAN
*General Manager, Legal, Secretariat & Compliance*

Ms Chionh was appointed General Manager in June 2004 and is responsible for legal, secretariat and group compliance matters. She was appointed Director of ECICS Limited in February 2009. She has been with the Group since 1995 and prior to this, practised law in Singapore. Ms Chionh holds a Master's degree in Law from the National University of Singapore as well as a Bachelor of Laws (Honours) from the National University of Singapore. She has a Diploma in Compliance and is also a CFA charterholder.

## TEOH CHUN MOOI
*General Manager, Operations*

Ms Teoh was appointed General Manager in August 2005 overseeing the factoring and loan operations including information technology. Prior to this, she was heading one of the Business Development teams. She has been with the Group since 1989. Ms Teoh holds a Bachelor of Business Administration (Honours) from the University of Windsor (Canada).

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

Mr Chua was appointed General Manager in January 2009 and is responsible for business development comprising commercial finance, alternative finance and structured finance. He is a Director of IFS Capital (Malaysia) Sdn. Bhd. as well. He joined IFS in 2006 and prior to this, he has more than 18 years of transactional experience in the areas of equity and debt fund raisings, valuations, mergers and acquisitions. He holds a Master of Applied Finance from the University of Adelaide and a Bachelor of Financial Administration from the University of New England. He is a Member of the Certified Practising Accountants of Australia.

## SERENE LIM GEK LUANG
*Assistant General Manager, Business Development - Commercial Finance*

Ms Lim was appointed Assistant General Manager overseeing the business development functions for Commercial Finance. She joined IFS in March 2005. She has more than 20 years of working experience in the banking and financial industry in the areas of credit and marketing of factoring, leasing, hire purchase and mortgage loans. Ms Lim holds a Bachelor of Commerce from the Nanyang University.

## PHYLLIS CHIU YIN WAH

*Assistant General Manager, Credit Risk Management*

Ms Chiu was appointed Assistant General Manager in January 2008 overseeing the Credit Risk Management department. Prior to this, she was heading one of the business development teams. She has been with the Group since 1989. Ms Chiu is a Certified Risk Management Professional conferred by Asian Risk Management Institute. She holds a Bachelor of Arts from the National University of Singapore.

## LUA TOO SWEE

*Deputy Chief Executive Officer and Alternate Principal Officer, ECICS Limited*

Mr Lua joined ECICS Limited as General Manager, Risk Management in July 2008. He was appointed Deputy Chief Executive Officer and Alternate Principal Officer in February 2009 to oversee the subsidiary's business and overall operations. He is also a member of the Board of Commissioner of PT. IFS Capital Indonesia. Mr Lua has more than 20 years of international banking experience in the areas of credit risk evaluation and credit risk management. His extensive credit experience includes 10 years as Head of Credit in Singapore for Germany's WestLB Ag covering the Asia Pacific countries. Prior to joining the Group, he was Chief Credit Officer for the Bank of Maldives. Mr Lua holds a Master of Accountancy from Charles Sturt University, Australia and a Bachelor of Arts from the University of Singapore.

## JEAN PHOON YOOK SEEN

*General Manager, Operations, ECICS Limited*

Ms Phoon was appointed General Manager in July 2008 and is responsible for the subsidiary's insurance operations and claims matters. Ms Phoon is a veteran of the credit insurance industry and was with the predecessor companies to ECICS Limited for close to 30 years involved in business development, underwriting, claims and operations. Ms Phoon holds a Diploma in Business Administration as well as a Diploma in Marketing.

## TAN LEY YEN

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

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

## DANI FIRMANSJAH

*Chief Executive Officer, PT. IFS Capital Indonesia*

Mr Firmansjah joined PT. IFS Capital Indonesia in August 2006 as Chief Executive Officer. He has several years of experience in financial industry in Indonesia, primarily in the area of leasing & factoring business. Prior to joining the Company, he had held appointments in PT Saseka Gelora Finance and PT BFI Finance Indonesia Tbk. He was appointed Secretary General of the Indonesian Financial Services Association in 2004 and Secretary General of the Asian Leasing & Finance Association in 2006, all based in Jakarta. Mr Firmansjah holds a Master in Management degree from the Asian Institute of Management, Manila, the Philippines, and he was recognized as one of the Outstanding Alumni in 2005.

## KATRINA BINTI AB RAHMAN

*General Manager, IFS Capital (Malaysia) Sdn. Bhd.*

Ms Katrina joined IFS Capital (Malaysia) Sdn. Bhd. in August 2006 as General Manager to set up the Group's new operations in Kuala Lumpur, and is responsible for the running and overall management of the subsidiary. Prior to this, she was working in the banking and financial institutions, and had vast experience in area of credit and business development. For the last 10 years, she served as the General Manager of Affin Factors Sdn Bhd, a subsidiary of Affin Bank Berhad. She holds a Bachelor of Business Administration from Eastern Michigan University, USA.

## OTHER KEY EXECUTIVES

### IFS

**Donald Choong See Meng**
*Vice President (Team Head), Commercial Finance*
*CPA, MSc, BEng (Hons)*

**Edmund Yik Khiam Peow**
*Vice President (Team Head), Commercial Finance*
*BBus*

**Ken Han Yeh Kwong**
*Manager, Credit Risk Management*
*BComm*

**Kelvin Lim Koon Young**
*Manager, Overseas Credit Risk Management*
*BSc (Hons)*

**Jane Ang Lee Keow**
*Manager, Operations & Client Relationship*
*BBC*

**Chan Yee Sun**
*Manager, Loan Operations & Collections*
*BBA*

**Simon Chia Keng Hoong**
*Manager, Information Technology*
*BASc*

**Sow Hwee Siang**
*Manager, Information Technology*
*BComp*

**Ee Sin Soo**
*Senior Manager, Legal, Secretariat & Compliance*
*LLB (Hons)*

**Angeline Ng Ching Loo**
*Manager, Legal, Secretariat & Compliance*
*LLB (Hons)*

**Tang Mei Ling**
*Manager, Internal Audit*
*CPA, CIA, BComm*

**Ong Peck Li**
*Senior Manager, Finance*
*ACCA*

**David Tsang Kai Kong**
*Manager, Finance*
*CPA, ACCA*

**Felicia Lim Sok Peng**
*Manager, HR & Admin*
*GDipPM, BSc (Hons)*

### ECICS LIMITED

**Juliet Lim Foon Keen**
*Head, Business Development*
*BBA*

**Kenny Lok Kian Meng**
*Deputy Head, Business Development*
*MBA, BSc (Hons), ANZIIF (Fellow) CIP, DipM, FCIM, Chartered Marketer*

**Chee Teng Joo**
*Senior Manager, Special Product & Bond Business*
*LLB (Hons)*

**Kevin Wong Vui Khong**
*Deputy Head, Risk Management*
*BSc*

**Sherrie Fung Pui Man**
*Deputy Head, Operations*
*BSc*

**Tricia Pang Sow Huan**
*Head, Finance*
*ACCA, BA*

# Main Subsidiaries, Associated and Affiliated Companies

## Subsidiaries

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

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

### IFS Capital (Hong Kong) Limited
11-12/F United Centre
95 Queensway
Hong Kong
Tel : (852) 2277 6819
Fax : (852) 2277 6565

### IFS Capital (Malaysia) Sdn. Bhd.
### IFS Factors (Malaysia) Sdn. Bhd.
B-17-7, 17th Floor, Block B
Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur
Malaysia
Tel : (603) 2161 2080/3080/4080
Fax : (603) 2161 9090

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

## Associates

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

## Affiliates

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

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

# Group Financial Highlights

| S$'000 | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **PROFIT & LOSS STATEMENT** | | | | | |
| Gross operating income | **34,270** | 45,468 | 41,491 | 39,964 | 33,492 |
| Profit | | | | | |
| – before tax | **7,857** | 12,677 | 11,473 | 14,780 | 9,194 |
| – after tax | **8,015** | 12,856 | 11,827 | 11,588 | 8,107 |
| **BALANCE SHEET** | | | | | |
| Issued share capital | **88,032** | 88,032 | 77,675 | 51,649 | 51,649 |
| Shareholders' funds | **120,972** | 123,921 | 115,907 | 107,591 | 95,788 |
| Total assets | **393,437** | 481,044 | 459,444 | 554,760 | 447,177 |
| Total liabilities | **272,465** | 357,123 | 343,537 | 447,169 | 351,389 |
| **DIVIDEND INFORMATION** | | | | | |
| Dividends declared/proposed for the year (net of tax) | **2,486** | 7,096 | 14,863 | 4,140 | 2,892 |
| Dividend cover (number of times)* | **3.63** | 0.75 | 0.66 | 2.32 | 3.07 |
| Gross dividends declared per share* | | | | | |
| – Ordinary (cents) | **2.00** | 6.25 | 5.00 | 5.00 | 3.50 |
| – Bonus (cents) | **–** | – | 12.50 | – | – |
| **FINANCIAL RATIOS** | | | | | |
| Earnings per share after tax (cents) | **6.45** | 10.80 | 9.94 | 11.22 | 7.87 |
| Return on average shareholders' funds (%) | **6.55** | 10.72 | 10.58 | 11.40 | 8.81 |
| Cost-income ratios (%) | **55.60** | 42.50 | 47.00 | 37.50 | 42.60 |
| Net tangible assets per share ($) | **0.97** | 0.99 | 0.93 | 1.04 | 0.95 |

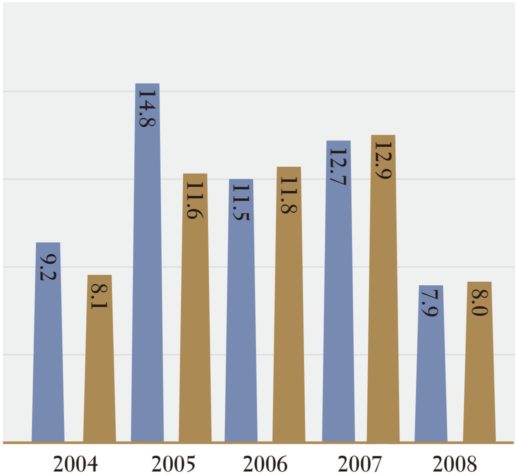
Notes: * Gross dividends per share and times covered are stated based on the dividend declared/proposed in respect of the respective financial years. Gross dividend per share for FY2008 relates to one-tier tax exempt interim dividend paid of 1.0 cent (FY2007: 3.0 cents less tax @ 18%) and proposed final one-tier tax exempt dividend of 1.0 cent (FY2007: 3.25 cents).

Earnings per share and net tangible assets per share for FY2006 have been restated to take into account the rights issue completed in June 2007.

# Performance at a Glance

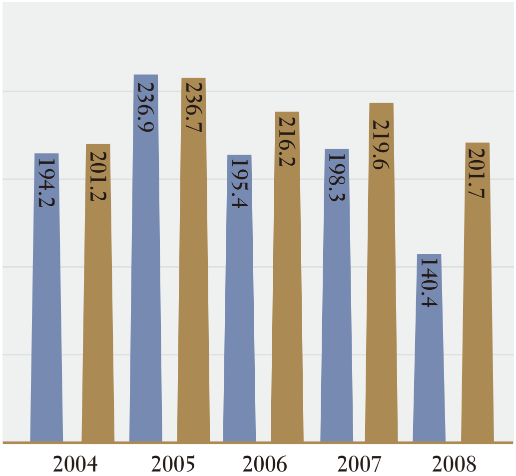
## Profit & Loss (S$ million)

- Profit before tax
- Profit after tax



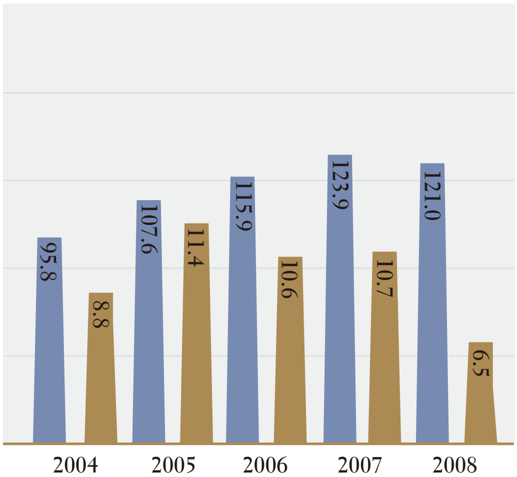

## Factoring Receivables and Loans & Advances (S$ million)

- Factoring receivables (gross)
- Loans & advances (gross)

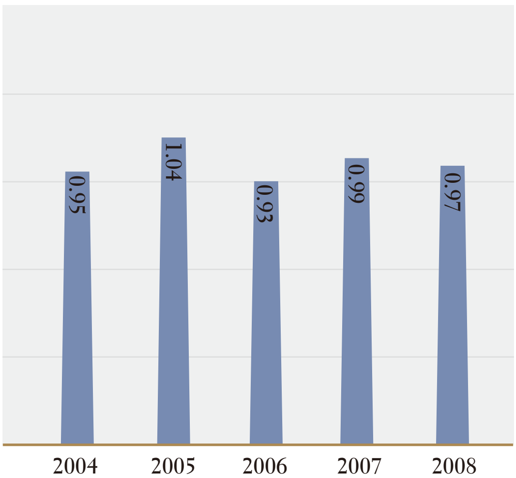



## Shareholders' Funds (S$ million)
## Return on Average Shareholders' Funds (%)

- Shareholders' funds
- Return on average shareholders' funds

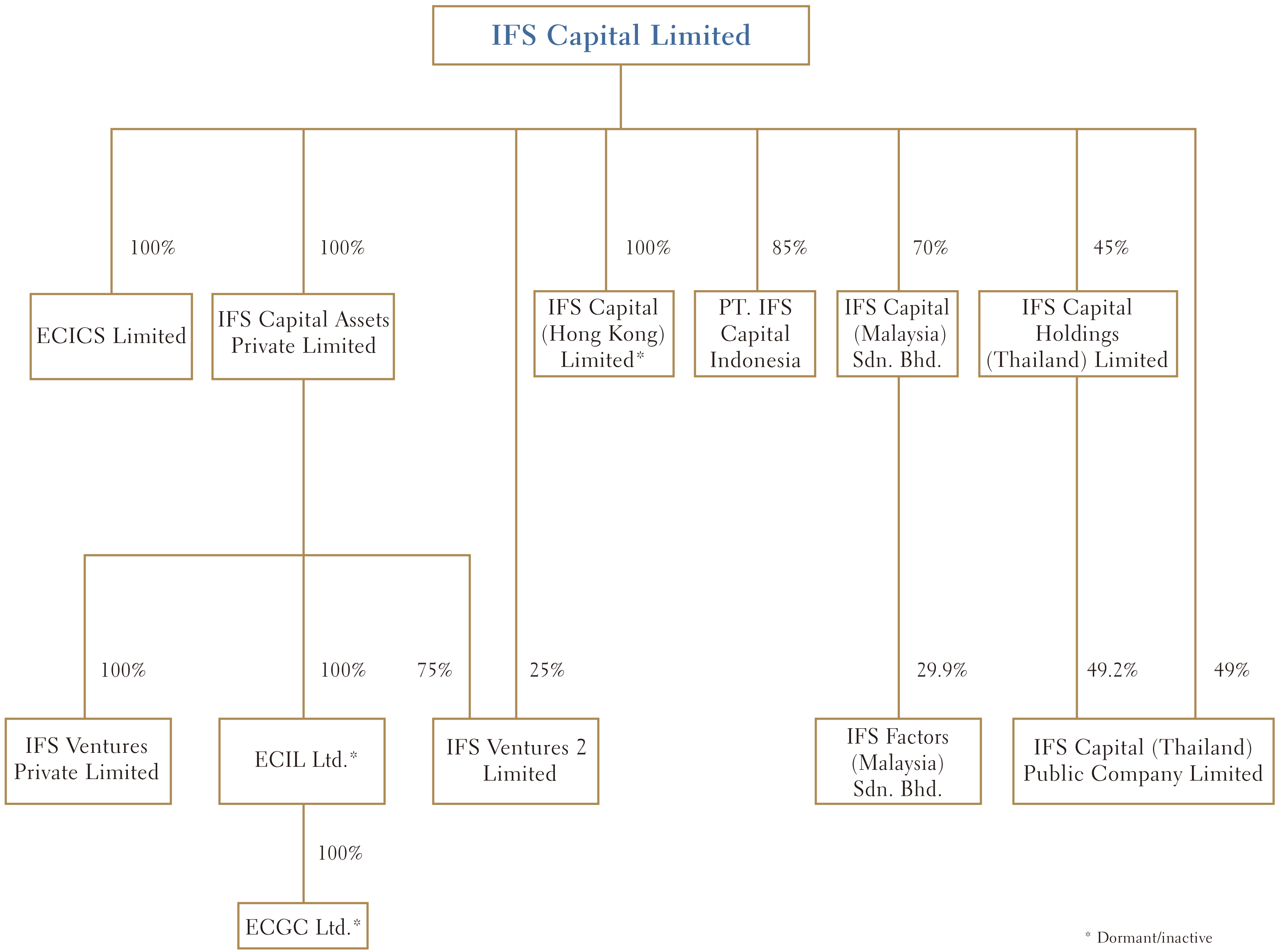



## Net Tangible Assets per Share (S$)




Note: Net tangible assets per share for FY2006 has been restated to take into account the rights issue completed in June 2007.

# Corporate Structure




* Dormant/inactive

### Overview – Substantial downside risks

As the year 2008 progressed, the global economy was hit by an unprecedented series of shocks. The financial turmoil that started in the United States spread to the global economy, causing severe disruption in financial intermediation all over the world. What started as a financial crisis in the United States has now grown into the worst global economic crisis since the 1930s Depression. With many of the world's largest banks and other financial institutions facing large losses and becoming highly risk averse, the credit crunch has become severe. With the risk appetite of both creditors and equity investors severely reduced, countries and companies that need to roll over maturing debt are finding it hard to do so. As a result, we are seeing many emerging market countries and many large companies sink into crisis.

Against this backdrop, the trade-dependent economies of Southeast Asia are bound to face strong headwinds in 2009:

- First, the major economies that are the export markets for Southeast Asia will be in recession for most of 2009. The United States economy, a critical export destination, will probably contract by close to 2% in 2009. Similarly, Japan's economy is also set to weaken sharply as will Europe.

- Second, many emerging market countries in Europe appear to be on the verge of a serious financial crisis. Global investors are likely to react to such developments by reducing further their exposure to emerging markets generally. Net flows of portfolio capital to the region will probably fall sharply. This could harm Asian economies that need to re-finance maturing debt this year. Companies that have made substantial capital commitments will also find it harder to raise funds. While China has not slowed as sharply as others, its leaders were sufficiently concerned to mount one of the largest fiscal stimulus packages in its history.

- Third, other transmission mechanisms from the global level to the region are also operating. Remittances from foreign workers sent abroad do play a role in countries such as Thailand and Indonesia – these are likely to decline this year. Commodity prices have fallen. This will particularly hurt smallholders in Malaysia, Indonesia and Thailand who depend on sales of products such as crude palm oil or rubber. Foreign direct investment flows into the region will probably decline as companies defer or downscale or cancel planned projects. Tourism is also slowing.

The fourth quarter of 2008 already showed a precipitous deceleration in economic activity in the region. Lead indicators for Southeast Asian economies are signalling a further slowdown. Some of the data for the early part of this year are suggesting a painful start to the year – export revenues have fallen sharply, dragging industrial production down as well.

In the face of such difficult conditions, the critical question is, first, how much policy action at the global level will help stabilise the global economy. As far as this is concerned, it is encouraging to see increased evidence of co-operation in policy making. For instance, the G20 group of 20 most influential economies is holding a summit in early April. That will set up a process for further and expanded joint policy co-ordination. While it may take some time to do so, we are confident that eventually policy makers in the largest economies will be able to work out the measures needed to stabilise the world economy.

The second question is how resilient Southeast Asia can be. We discuss this in the country sections below.

# Economic Assessment of Southeast Asia

## SINGAPORE

The Singapore economy faces two key challenges. One is the unavoidable impact of the global economic slowdown and the second is the adjustment that the economy will need to undergo as it has entered a severe economic slowdown with a high cost structure.

The Singapore economy is one of the most externally-oriented economies in the world. It is linked to the global economy through trade, financial and other linkages. Thus, it will be difficult for the Singapore economy to avoid a fairly severe impact from the global crisis.

- Exports have been hurt badly. Non-oil domestic exports fell 34.8% in January 2009, with weakness across virtually all export segments and geographic markets. With the lead indicators for Singapore's main export destinations looking poor, it is unlikely that export demand will recover in 2009.
- Financial services will be hurt as well. Bank lending is decelerating while equity market volumes have fallen sharply.
- With the regional economies now also losing momentum, demand for Singapore's regional hub services is also declining. Trade-related services as well as financial services related to regional activities are under pressure.

A second challenge for Singapore is that the boom it enjoyed until early 2008 had pushed up labour, rental and other business costs for businesses. Now that these businesses have been hit so hard by the global crisis, they will have to restructure painfully. Retrenchments will have to rise, probably supplemented by other means of reducing labour costs such as forced no-pay leave. In addition, Singapore-based businesses will need to re-engineer their operations to reduce other costs as well. The key risk to the economy is that these re-engineering efforts could prove to be deflationary. We believe it is likely that consumer prices will fall in the second half of 2009, with this deflation persisting at least until around mid-2010. This will set the stage for some weakening in real estate prices as well.

Given the scale of these shocks, it will be difficult for the Singapore economy to register any growth in output this year (Table 1 lists the main forecasts for the Singapore economy). Nevertheless, we believe that Singapore will demonstrate some degree of resilience and capacity to turn around quickly once global conditions improve:

- A major reason for this view is that the government has substantial resources in the form of surpluses and can therefore respond vigorously to stabilise the economy.
- Moreover, Singapore has attracted substantial new investment in new engines of growth. The integrated resorts will start operations in the next two years as will a number of very large manufacturing plants in diverse areas such as bio-diesel, petrochemicals and solar cells. As these new engines start operating, they will add to output and increase employment.

Overall, despite a very difficult year ahead, we remain confident that Singapore will bounce back reasonably well in 2009 – so long as the global economy recovers.

**Table 1: Singapore Forecasts**

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| GDP growth | 8.2 | 7.7 | 1.3 | -3.8 | 4.0 |
| Inflation | 1.0 | 2.1 | 6.5 | 0.0 | -0.4 |
| Current account/ GDP % | 26.6 | 24.3 | 14.8 | 27.0 | 28.0 |
| Currency/US$ | 1.54 | 1.45 | 1.47 | 1.68 | 1.55 |

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

## MALAYSIA

After fending off the global crisis through much of 2008, the Malaysian economy began to experience a sharp weakening in the fourth quarter of 2008 when GDP growth fell to 0.1% compared to 4.7% in the previous quarter. The slowdown reflects multiple channels of impact from the global economic slowdown:

- Exports have taken a sizeable hit, falling 27.8% in January 2009 and with falls being seen in most export segments. Manufactured exports have suffered the most, with the key electronics/electrical goods segment falling 34.5%. Primary commodity exports have also fallen, with prices falling as well as volumes contracting. Malaysia is one of the most open economies in the world, with an unusually high exports-to-GDP ratio of 110%, so its economy is sensitive to the vagaries of the global economy.

- With the fall in commodity prices, rural incomes have suffered a dent. When combined with rising layoffs in manufacturing, this has put some pressure on household incomes, and so weakened prospects for consumer spending. As a result, domestic demand has lost momentum.

Malaysia's resilience to the global economic crisis is also affected by the structural forces it is exposed to. Being one of the most successful developing economies in recent decades, it has seen its wage and other costs rise. With competition for export markets and foreign direct investment intensifying from many newly liberalised economies such as China and Vietnam, Malaysia has seen some activities relocated out of the country. This was one reason why retrenchments had surged 71% in 2008.

Consequently, the near term outlook is not encouraging. The government's official leading index contracted by 2.9% in December 2008 (compared to a fall of 2.5% in November 2009), marking the third consecutive month of decline and thus suggesting economic contraction through at least the first half of 2009. Approvals of new loans have fallen sharply by 35.6% in January 2009, indicating that credit conditions have tightened considerably.

The government is responding forcefully to the slowdown. In early March 2009, it announced a massive fiscal stimulus package amounting to about Ringgit60 billion or 9% of GDP. In addition, Bank Negara Malaysia has been aggressively cutting interest rates and easing monetary conditions. With a new political leadership in place by April 2009, political uncertainty is likely to improve, helping to bolster business and consumer confidence. Overall, we continue to believe that the Malaysian economy can recover reasonably strongly once the global economy recovers in 2010. Our forecasts are shown in Table 2.

**Table 2: Malaysia Forecasts**

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| GDP growth | 5.8 | 6.4 | 4.7 | -0.5 | 4.5 |
| Inflation | 3.6 | 2.0 | 5.4 | 2.8 | 2.0 |
| Current account/ GDP % | 16.3 | 15.6 | 12.4 | 7.5 | 5.2 |
| Currency/US$ | 3.54 | 3.33 | 3.54 | 3.80 | 3.60 |

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

## THAILAND

Considering the series of shocks that the Thai economy has had to weather in recent years, it has actually performed fairly well. It has endured substantial political uncertainty since 2005, including a military coup in September 2006 and several changes of government after that. In addition to the intra-elite discord, Thailand has also had to face a serious insurgency in its southern-most provinces, a region where violence continues to flare.

Now, Thailand is also experiencing the full effects of the global crisis. It is a highly open economy with an exports-to-GDP ratio of 96% and is exposed to the global economy through multiple channels:

- The decline in exports has accelerated considerably, with January 2009 exports falling 26.5% after falling by an average of about 16% in November-December 2008. As with other Southeast Asian economies, the fall in exports has been across the board.

- The fall in commodity prices is also hurting, partly explaining why private consumption spending has been estimated to have fallen by around 2% in January 2009. Employment in urban areas is also coming under pressure from the weakness in external trade – with unemployment edging up from 1.4% in 2008 to 1.7% in February 2009. Together with a flagging tourist arrivals, this too is hurting private consumption spending.

Nevertheless, there are grounds for some optimism:

- The new government, in place since the beginning of 2009, is stepping up the pace of the government's response to the slowdown. Large infrastructure projects are being stepped up, with new metro lines likely to start construction by the later part of 2009. In addition to such fiscal stimulus, the Bank of Thailand has also been reducing interest rates aggressively, thereby easing monetary conditions. With consumer prices now falling, the central bank has considerable leeway to ease policy.

- In addition, political discord, while still a problem, has eased in recent months, with the new government showing signs of surviving its challenges. This is helping to improve business confidence for the longer term.

- The longer term positives for the Thai economy remain in place. Its nimble and adaptive manufacturing sector continues to show a capacity to adjust to changing competitive conditions, with new industries such as auto and auto-related activities demonstrating long-term growth. The rapid development of the Mekong Region with help from vastly improving infrastructure linkages and high growth rates in many neighbouring countries will boost the status of Bangkok as a key regional hub.

Hence, our relative confidence in the Thai economy's prospects as seen in our forecasts in Table 3.

**Table 3: Thailand Forecasts**

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| GDP growth | 5.1 | 4.8 | 2.7 | 0.5 | 5.0 |
| Inflation | 4.7 | 2.2 | 5.5 | 2.8 | 2.2 |
| Current account/ GDP % | 1.1 | 7.8 | -0.1 | -0.5 | -1.3 |
| Currency/US$ | 37.9 | 32.2 | 35.0 | 37.5 | 34.0 |

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

Notes: (1) Interest rate refers to the 3 Month Inter-bank offered rate.
(2) Exchange rate refers to the onshore rate, we are assuming that the end of capital controls in 2008 will unify the offshore and onshore Thai Baht rates.

## INDONESIA

Among Southeast Asian economies, Indonesia has one of the lowest trade dependencies. Its exports-to-GDP ratio has actually fallen from around 40% in 2000 to about 29% in 2008. As a result, its economy has not slowed as drastically as in many other more exposed economies. Its relative resilience is seen in some key areas:

- GDP growth eased to 5.2% in the fourth quarter of 2008. Although, fourth quarter growth was the slowest in two years, this performance stood in marked contrast to the outright declines or flat growth seen in Singapore, Malaysia and Thailand.

- Remarkably, tourist arrivals continued to grow strongly – up 17.7% in December 2008 compared to an average 13.2% in 2008 as a whole.

- Some segments of the economy continued to show strong secular growth. For example, telecommunications grew nearly 16% in the fourth quarter of 2008, reflecting the ongoing revolution in mobile telephony in the country.

Still, even Indonesia is being affected by the global crisis in recent months. Exports fell 36.1% in January 2009, the biggest annual decline in more than 22 years and after falling 20.6% in December 2008. As commodity prices fall and depress rural household incomes, consumer spending is beginning to wilt: vehicle sales fell 23.5% in January 2009. The lead indicator for Indonesia developed by the Organisation for Economic Co-operation and Development has fallen in recent months, suggesting a further moderation in economic growth in coming months. The government also expects remittances from its foreign workers abroad to fall by around 10% in 2009.

One area of concern has been Indonesia's external financial vulnerability. Indonesia is estimated to have about US$35 billion debts reaching maturity in 2009 and which will have to be re-financed. The Rupiah has come under some pressure intermittently in recent months, forcing Bank Indonesia to use its foreign exchange reserves to protect the currency. In addition, some small banks have seen deposits migrate to larger banks in recent months, reducing liquidity in some of them and raising concerns in some quarters about the viability of some of these smaller banks. Thus, a major emerging market crisis, say in Eastern Europe could have a contagious effect on Indonesia. Still, there are reasons to expect Indonesia to be able to contain such risks:

- Bank Indonesia is credited with having managed these risks reasonably well. Central bank credibility will be vital in fending off such external pressures.

- Indonesia has successfully raised US$3 billion in sovereign debt issues this year. It has also secured considerable financial support in the form of swap arrangements from its friends in the region such as Japan and China.

- With parliamentary elections approaching in April and presidential elections in July, there is considerable market and investor focus on the outcome. The opinion polls currently point to a comfortable victory for President Yudhoyuno in both key elections. If this is borne out, confidence in Indonesia will improve.

Overall, despite some of these risks mentioned above, we remain positive on Indonesia as seen in Table 4 below.

**Table 4: Indonesia Forecasts**

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| GDP growth | 5.5 | 6.3 | 6.1 | 3.8 | 6.3 |
| Inflation | 13.3 | 6.4 | 9.7 | 7.1 | 6.6 |
| Current account/ GDP % | 3.0 | 2.4 | 2.5 | 1.9 | 1.7 |
| Currency/US$ | 9,122 | 9,094 | 11,268 | 12,000 | 11,000 |

Source: Historical data collated from CEIC Database and forecasts by Centennial Group
Note: Interest rate refers to the 3 Month SBI rate from Bank Indonesia

**Prepared by Manu Bhaskaran**
**Partner/Head, Economic Research,**
**Centennial Group**

# Corporate Governance Report

The Board of Directors is committed to increasing the level of corporate governance in the Company in order to protect the interests of its shareholders. This report sets out the corporate governance practices of the Company during the financial year ended 31 December 2008, with specific reference to the principles of the Singapore Code of Corporate Governance 2005 (the "Code").

## 1. THE BOARD'S CONDUCT OF AFFAIRS

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

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

To assist in the execution of its responsibilities, the Board has established three Board committees: the Audit Committee, the Credit Committee and the Executive Resource and Compensation Committee. The Credit Committee, comprising of Chief Executive Officer and senior officers of the Company, assesses, reviews and makes decisions on credit risks that arise in the course of the financial business activities of the Company within the authority limits imposed by the Board. The details on the composition and functions of the Audit Committee and the Executive Resource and Compensation Committee can be found in the subsequent sections of this Report.

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

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

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

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

During the financial year ended 31 December 2008, the Board of Directors held five meetings.

1.4 The attendance of the Board members at the Board meetings and meetings of the Audit Committee and the Executive Resource and Compensation Committee during the financial year ended 31 December 2008 is set out as follows:

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

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

1.5 The Company conducts orientation programs to familarise new directors with the Company's businesses and policies. From time to time where suitable training courses are available, the directors are encouraged to attend these courses.

## 2. BOARD COMPOSITION AND GUIDANCE

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

2.1 The Board comprises 6 directors of whom 3 are independent directors. The nature of the directors' appointments on the Board is set out as follows:

| Directors | Board Membership |
|---|---|
| Lim Hua Min | Non-Executive, Non-Independent, Chairman |
| Lim How Teck | Independent |
| Gabriel Teo Chen Thye | Independent |
| Manu Bhaskaran | Independent |
| Lee Soon Kie | Executive, Chief Executive Officer |
| Kwah Thiam Hock | Non-Executive, Non-Independent |

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

2.3 Details of the directors' academic and professional qualifications, appointment dates on the Board and other appointments are set out on pages 32-34.

## 3. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

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

## 4. BOARD MEMBERSHIP

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

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

4.2 The Executive Resource and Compensation Committee currently comprises 3 members, the majority of whom are independent. The Committee is chaired by Mr Lim How Teck who is an independent Non-Executive Director and is not associated with a substantial shareholder.

The composition of the Executive Resource and Compensation Committee is set out below:

| | |
|---|---|
| Lim How Teck | Chairman, Independent |
| Lim Hua Min | Member, Non-Independent |
| Gabriel Teo Chen Thye | Member, Independent |

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

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

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

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

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

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

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

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

## 5. BOARD PERFORMANCE

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

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

5.2 The Board adopts a performance benchmark for the Company's performance based mainly on the average return on equity of the various comparable companies in the industry.

## 6. ACCESS TO INFORMATION

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

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

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

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

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

## 7. PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

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

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

7.2 Pursuant to the terms of reference, the Committee:

(i) reviews and approves the remuneration packages for each director and the key executives as well as their terms of employment, and also decides on policies relating to remuneration and incentive programs (including staff benefits and special bonuses) for the staff of the Group; and

(ii) administers the share option scheme and the performance share plan, both established in the year 2000.

The Committee, if it requires, can seek expert advice on executive compensation matters from professional firms.

## 8. LEVEL AND MIX OF REMUNERATION

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

8.1 For the Chief Executive Officer/Executive Director(s), their remuneration packages comprise of a fixed component which is benchmarked against the financial services industry and a variable component which is linked to the performance of the Group as well as the individual performance. An annual performance incentive plan implemented by the Group links rewards purely to corporate and individual performance.

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

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

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

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

8.5 The Group has in place two non-cash benefit schemes in the form of a share option scheme and a performance share plan (details of the share option scheme and the performance share plan are on pages 37-39). These schemes are administered by the Executive Resource and Compensation Committee.

## 9. DISCLOSURES ON REMUNERATION

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

9.1 A breakdown showing the level and mix of each individual director's remuneration payable for the financial year ended 31 December 2008 is as follows:

| | Number of Directors | |
|---|---|---|
| **Remuneration Band** | **2008** | **2007** |
| $500,000 and above | 1 | 1 |
| $250,000 to below $500,000 | 0 | 0 |
| Below $250,000 | 5 | 5 |
| **Total** | **6** | **6** |

| Remuneration Band/ Directors of Company | | Directors' Fees % | Fixed Pay % | Annual Wage Supplement and Variable Bonus % | Allowances & Others % | Total % |
|---|---|---|---|---|---|---|
| (i) | **$500,000 to below $750,000** | | | | | |
| | Lee Soon Kie | – | 48 | 46 | 6 | 100 |
| (ii) | **$250,000 to below $500,000** | | | | | |
| | – | – | – | – | – | – |
| (iii) | **Below $250,000** | | | | | |
| | Lim Hua Min | 100 | – | – | – | 100 |
| | Gabriel Teo Chen Thye | 100 | – | – | – | 100 |
| | Lim How Teck | 100 | – | – | – | 100 |
| | Manu Bhaskaran | 100 | – | – | – | 100 |
| | Kwah Thiam Hock | 100 | – | – | – | 100 |

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

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

| | Number of Key Executives | |
|---|---|---|
| **Remuneration Band** | **2008** | **2007** |
| $500,000 and above | 0 | 0 |
| $250,000 to below $500,000 | 3 | 2 |
| Below $250,000 | 2 | 3 |
| **Total** | **5** | **5** |

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

## 10. ACCOUNTABILITY

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

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

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

## 11. AUDIT COMMITTEE

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

11.1 The Audit Committee comprises 3 members, all of whom are independent Non-Executive Directors:

| | |
|---|---|
| Gabriel Teo Chen Thye | Chairman, Independent |
| Lim How Teck | Member, Independent |
| Manu Bhaskaran | Member, Independent |

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

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

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

The Audit Committee also reviews the independence of external auditors annually as well as the re-appointment of external auditors.

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

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

## 12. INTERNAL CONTROLS

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

12.1 The Audit Committee reviews the adequacy of the internal control system that includes internal financial, operational and compliance controls, and risk management policies and systems established by management, with the assistance of the internal and external auditors. The internal auditors conduct reviews of the internal control systems and will highlight any significant internal control weaknesses noted to the Audit Committee as well as monitor that necessary actions are taken by management.

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

12.3 The Board notes that all internal control systems contain its inherent limitations and thus can only provide reasonable, but not absolute, assurance against material financial misstatement or loss.

Based on the information furnished to the Board, the Board is satisfied with the adequacy of the Company's internal control system currently maintained by management.

## 13. INTERNAL AUDIT

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

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

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

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

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

(b) the quality of their reports;

(c) to whom they report within the Group;

(d) their relationship with the external auditors; and

(e) their independence of the areas reviewed.

## 14. COMMUNICATION WITH SHAREHOLDERS

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

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

## 15. GREATER SHAREHOLDER PARTICIPATION

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

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

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

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

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

## 16. CODE ON DEALINGS IN SECURITIES

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

# Corporate Governance Report

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

| Name of Director | Academic & Professional Qualifications | IFS Board (a) Date First Appointed (b) Date Last Re-elected | (a) Present directorships in other listed companies (b) Other major appointments |
|---|---|---|---|
| Lim Hua Min | – Bachelor of Science (Honours), University of Surrey, England (1968)<br>– Master of Science, Imperial College, London University (1969) | (a) 20.05.2003<br>(b) 26.04.2007 | (a) Walker Crips Group plc. (UK)<br>(b) Member, Board of Directors, Phillip Securities Pte Ltd<br>Member, Board of Directors, Phillip Futures Pte Ltd<br>Member, Board of Directors, Phillip Financial Pte Ltd<br>Board Member, Inland Revenue Authority of Singapore |
| Lim How Teck | – Bachelor of Accountancy, University of Singapore (1975)<br>– Fellow, The Chartered Institute of Management Accountants of UK<br>– Associate, Institute of Business Administration of Australia | (a) 30.06.2000<br>(b) 25.04.2008 | (a) Eng Kong Holdings Limited<br>Lasseters International Holdings Limited<br>CDL Hospitality Trusts<br>Rickmers Maritime Trust<br>Mermaid Maritime Public Company Limited<br>ARA Asset Management Ltd<br>MacarthurCook Investment Managers (Asia) Limited<br>(b) Fellow, Certified Public Accountants of Australia<br>Fellow, Institute of Certified Public Accountants of Singapore<br>Fellow, Singapore Institute of Directors |

| Name of Director | Academic & Professional Qualifications | IFS Board<br>(a) Date First Appointed<br>(b) Date Last Re-elected | (a) Present directorships in other listed companies<br>(b) Other major appointments |
|---|---|---|---|
| Gabriel Teo Chen Thye | – Bachelor of Business Administration, University of Singapore (1975)<br>– Masters in Business Administration, Cranfield School of Management (UK) (1980) | (a) 02.11.1999<br>(b) 25.04.2008 | (a) Sunningdale Tech Ltd<br>(b) Member, Board of Directors, NTUC Income Insurance Co-operative Limited<br>Member, Board of Directors, SP Services Ltd<br>Chairman, Board of Directors, One Marina Property Services Pte Ltd (formerly SLF Management Services Pte Ltd)<br>Member, Board of Governors, St Gabriel's Foundation<br>Member, Advisory Committee, School of Business Management, Nanyang Polytechnic |
| Manu Bhaskaran | – Bachelor of Arts (Honours), Magdalene College, Cambridge University (1980)<br>– Masters in Public Administration, John F Kennedy School of Government, Harvard University (1987)<br>– Chartered Financial Analyst (1992) | (a) 26.02.2004 (previously director of IFS from 26.06.2002 to 20.05.2003)<br>(b) 26.04.2006 | (a) Koyo International Limited (formerly Cyber Village Holdings Limited)<br>(b) Council Member, Singapore Institute of International Affairs<br>Vice President, Economic Society of Singapore<br>Senior Adjunct Fellow, Institute of Policies Studies |
| Lee Soon Kie | – Bachelor of Arts, National University of Singapore (1983)<br>– Master of Science, University of Wales, Aberystwyth, UK (2002) | (a) 21.03.2003<br>(b) 26.04.2006 | (a) Babcock & Brown Global Investments Limited (formerly Babcock & Brown Structured Finance Fund Limited)<br>(b) – |

# Corporate Governance Report

| Name of Director | Academic & Professional Qualifications | IFS Board<br>(a) Date First Appointed<br>(b) Date Last Re-elected | (a) Present directorships in other listed companies<br>(b) Other major appointments |
|---|---|---|---|
| Kwah Thiam Hock | – Bachelor of Accountancy, University of Singapore (1973)<br>– Fellow, Certified Public Accountant, Institute of Certified Public Accountants of Singapore<br>– Fellow, Certified Public Accountant, Australian Society of Accountants<br>– Fellow, Association of Chartered Certified Accountants (UK) | (a) 04.05.1987<br>(b) 26.04.2007 | (a) Select Group Limited<br>Wilmar International Limited<br>Excelpoint Technology Limited<br>Swissco International Limited<br>(b) Member, Management Committee, Singapore Turf Club<br>Member, Audit Committee, Singapore Totalisation Board |

# Financial Report 2008

# Directors' Report

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2008.

## DIRECTORS

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

Lim Hua Min
Gabriel Teo Chen Thye
Lim How Teck
Manu Bhaskaran
Lee Soon Kie
Kwah Thiam Hock

## DIRECTORS' INTERESTS

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

| Name of director and corporation in which interests are held | Holdings at beginning of the year | Holdings at end of the year |
|---|---|---|
| **Lim Hua Min** | | |
| IFS Capital Limited | | |
| – ordinary share | | |
| – deemed interests | 50,216,246 | **50,216,246** |
| **Lee Soon Kie** | | |
| IFS Capital Limited | | |
| – ordinary shares | | |
| – interest held | 680,000 | **720,000** |
| **Kwah Thiam Hock** | | |
| IFS Capital Limited | | |
| – ordinary shares | | |
| – interest held | 420,000 | **420,000** |

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

There were no changes in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2009.

Except as disclosed under the "Share Options" section of this report, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the last financial year, no director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in the notes to the financial statements and in this report.

## SHARE OPTIONS

***IFS (2000) Share Option Scheme ("2000 Scheme")***

The 2000 Scheme was approved on 24 May 2000.

Under the 2000 Scheme:

(i) Options will be granted to selected employees of the Company and/or its subsidiaries, including Executive and Non-Executive Directors of the Company and other selected participants, provided that they are not controlling shareholders or its associates of the Company, to subscribe for ordinary shares in the Company.

(ii) The 2000 Scheme shall continue to be in force at the discretion of the Committee administering the Scheme, subject to a maximum period of 10 years commencing on 24 May 2000 provided always that the 2000 Scheme may continue beyond 10 years with the approval of the Company's shareholders by ordinary resolution in general meeting or any relevant authorities which may then be required.

(iii) The aggregate number of ordinary shares to be issued pursuant to the 2000 Scheme and those to be awarded under the IFS Performance Share Plan, as detailed under "Performance Share Plan", shall not exceed 15% of the issued shares in the capital of the Company on the day preceding the relevant grant date.

(iv) The offer of an option to an eligible grantee, if not accepted by him within 30 days from the date of such offer, will lapse. Upon acceptance of the offer, the eligible grantee to whom the option is granted shall pay to the Company a consideration of $1.

(v) The subscription price shall be determined by the Committee administering the Scheme at:

(a) daily weighted average price for the ordinary share as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Limited for the 3 consecutive trading days immediately preceding the date of grant of the option ("Market Price"); or

(b) a price which is set at a maximum discount of 20% of the Market Price.

(vi) All options are settled by physical delivery of shares to The Central Depository (Pte) Limited.

(vii) The option can be exercised during the following period:

| Type of options | Exercise period |
|---|---|
| Option with subscription price fixed at Market Price granted to:<br>• Participants other than Non-Executive Directors<br>• Non-Executive Directors | <br>• 12 to 120 months from date of grant<br>• 12 to 60 months from date of grant |
| Option with subscription price fixed at a discount to the Market Price granted to:<br>• Participants other than Non-Executive Directors<br>• Non-Executive Directors | <br>• 24 to 120 months from date of grant<br>• 24 to 60 months from date of grant |

The Scheme is administered by the Executive Resource and Compensation Committee ("Committee") which comprises the following Non-Executive Directors:

| | |
|---|---|
| Lim How Teck (Chairman) | Independent |
| Lim Hua Min | Non-Independent |
| Gabriel Teo Chen Thye | Independent |

No eligible participant has been granted options which in aggregate, represent 5% or more of the total number of new shares available under the 2000 Scheme and the IFS Performance Share Plan.

No options were granted under the 2000 Scheme to controlling shareholders or their associated corporations, or parent group employees.

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

During the financial year under review:

- No options were granted under the 2000 Scheme.
- No options were exercised under the 2000 Scheme. There were a total of 21,500 unissued shares under the 2000 Scheme at the end of the financial year. Details of the options to subscribe for shares (including those granted to the Executive Directors) are as disclosed in Note 20 to the financial statements.

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

## PERFORMANCE SHARE PLAN

***IFS Performance Share Plan ("PSP")***

Under the PSP, awards, which represent the right to receive the Company's ordinary shares free of charge upon the achievement of certain prescribed performance targets, will be given to those participants eligible to participate in the PSP. The limit on the number of ordinary shares to be issued under the PSP is detailed in the preceding section, "Share Options".

The PSP is administered by the Committee. The PSP shall continue to be in force at the discretion of the Committee subject to a maximum period of 10 years commencing 24 May 2000. Further details for the PSP are set out in the Company's Circular dated 2 May 2000.

No awards have been granted under the PSP since its commencement.

## AUDIT COMMITTEE

The Audit Committee comprises the following Non-Executive Directors:

| | |
|---|---|
| Gabriel Teo Chen Thye (Chairman) | Independent |
| Lim How Teck | Independent |
| Manu Bhaskaran | Independent |

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

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

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

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

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

## AUDITORS

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

On behalf of the Board of Directors

**Lee Soon Kie**
*Director*

**Kwah Thiam Hock**
*Director*

Singapore
26 February 2009

# Statement by Directors

In our opinion:

(a) the financial statements set out on pages 45 to 155 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 2008 and of the results, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

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

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

On behalf of the Board of Directors

**Lee Soon Kie**
*Director*

**Kwah Thiam Hock**
*Director*

Singapore
26 February 2009

# Independent Auditors' Report

Members of the Company
IFS Capital Limited

We have audited the accompanying financial statements of IFS Capital Limited (the "Company") and its subsidiaries (the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2008, the income statement, statement of changes in equity and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 45 to 155.

*Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:

(a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;

(b) selecting and applying appropriate accounting policies; and

(c) making accounting estimates that are reasonable in the circumstances.

*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 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 and fair presentation of the financial statements 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.

# Independent Auditors' Report

*Opinion*

In our opinion:

(a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008 and the results, changes in equity and cash flows of the Group for the year ended on that date; and

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

KPMG LLP

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

Singapore
26 February 2009

# Balance Sheets

As at 31 December 2008

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 3 | **19,066** | 19,471 | **18,571** | 19,011 |
| Intangible assets | 4 | **406** | 297 | **117** | 118 |
| Subsidiaries | 5 | **–** | – | **46,495** | 46,495 |
| Associates | 6 | **11,546** | 11,718 | **8,145** | 8,064 |
| Other investments | 7 | **29,286** | 37,597 | **4,611** | 4,712 |
| Loans, advances, hire purchase and leasing receivables | 8 | **68,999** | 73,891 | **50,728** | 63,835 |
| Deferred tax assets | 10 | **1,707** | 979 | **1,322** | 912 |
| | | **131,010** | 143,953 | **129,989** | 143,147 |
| **Current assets** | | | | | |
| Derivative financial instruments | 11 | **117** | 2 | **117** | 2 |
| Reinsurers' share of insurance contract provisions | 12 | **30,033** | 26,909 | **–** | – |
| Insurance receivables | 13 | **1,759** | 5,025 | **–** | – |
| Trade and other receivables | 14 | **186,574** | 234,650 | **182,547** | 229,590 |
| Other investments | 7 | **18,872** | 32,720 | **41** | 205 |
| Cash and cash equivalents | 17 | **25,072** | 37,785 | **4,376** | 2,916 |
| | | **262,427** | 337,091 | **187,081** | 232,713 |
| **Total assets** | | **393,437** | 481,044 | **317,070** | 375,860 |
| **Equity attributable to equity holders of the Company** | | | | | |
| Share capital | 19 | **88,032** | 88,032 | **88,032** | 88,032 |
| Other reserves | 21 | **(2,349)** | 3,282 | **(28)** | 55 |
| Accumulated profits | 21 | **35,289** | 32,607 | **13,259** | 9,519 |
| **Total equity** | | **120,972** | 123,921 | **101,263** | 97,606 |
| **Non-current liabilities** | | | | | |
| Interest-bearing borrowings | 22 | **61,299** | 80,007 | **60,837** | 80,007 |
| Deferred tax liabilities | 10 | **114** | 826 | **–** | – |
| | | **61,413** | 80,833 | **60,837** | 80,007 |
| **Current liabilities** | | | | | |
| Derivative financial instruments | 11 | **–** | 7 | **–** | 7 |
| Trade and other payables | 23 | **25,298** | 38,573 | **28,329** | 26,336 |
| Insurance payables | 25 | **3,960** | 7,304 | **–** | – |
| Interest-bearing borrowings | 22 | **139,091** | 184,235 | **126,641** | 170,670 |
| Insurance contract provisions for | | | | | |
| – gross unexpired risks | 12 | **34,951** | 31,368 | **–** | – |
| – gross insurance claims | 12 | **6,669** | 10,400 | **–** | – |
| Current tax payable | | **1,083** | 3,708 | **–** | 539 |
| Bank overdrafts (unsecured) | 17 | **–** | 695 | **–** | 695 |
| | | **211,052** | 276,290 | **154,970** | 198,247 |
| **Total liabilities** | | **272,465** | 357,123 | **215,807** | 278,254 |
| **Total equity and liabilities** | | **393,437** | 481,044 | **317,070** | 375,860 |

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

# Consolidated Income Statement

Year ended 31 December 2008

| | Note | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| Interest income | 26 | 20,481 | 23,949 |
| Interest expense | 27 | (9,405) | (10,714) |
| **Net interest income** | | 11,076 | 13,235 |
| | | | |
| Gross written premiums | | 11,927 | 15,298 |
| Change in gross provision for unexpired risks | 12 | (3,583) | (2,848) |
| Gross earned premium revenue | | 8,344 | 12,450 |
| | | | |
| Written premiums ceded to reinsurers | | (7,194) | (9,115) |
| Reinsurers' share of change in the provision for unexpired risks | 12 | 2,668 | 3,027 |
| Reinsured premium expense | | (4,526) | (6,088) |
| **Net earned premium revenue** | 28 | 3,818 | 6,362 |
| | | | |
| Fee and commission income | 29 | 6,412 | 7,652 |
| Investment income | 30 | 3,559 | 7,505 |
| Other income | 31 | 1,313 | 463 |
| | | 11,284 | 15,620 |
| **Income before operating expenses** | | 26,178 | 35,217 |
| | | | |
| Business development expenses | | (959) | (890) |
| Commission expenses | | (968) | (992) |
| Staff costs | | (8,378) | (8,877) |
| General and administrative expenses | | (4,831) | (4,946) |
| | | (15,136) | (15,705) |
| | | | |
| Change in provision for insurance claims | | 3,731 | (55) |
| Reinsurers' share of change in provision for insurance claims | | 456 | 132 |
| Gross claims paid | 12 | (3,125) | (3,896) |
| Reinsurers' share of claims paid | 12 | 85 | 1,738 |
| Net claims – reversal/(incurred) | | 1,147 | (2,081) |
| **Operating profit before allowances** | | 12,189 | 17,431 |
| Allowances for loan losses and impairment of investments | 32 | (6,226) | (6,123) |
| **Operating profit after allowances** | | 5,963 | 11,308 |
| Share of after-tax results of associates | | 1,894 | 1,369 |
| **Profit before income tax** | 33 | 7,857 | 12,677 |
| Tax credit | 34 | 158 | 179 |
| **Net profit for the year** | | 8,015 | 12,856 |
| **Earnings per share** | 35 | | |
| Basic earnings per share (cents) | | 6.4 | 10.8 |
| Diluted earnings per share (cents) | | 6.4 | 10.8 |

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

# Consolidated Statement of Changes in Equity

Year ended 31 December 2008

| | Share capital $'000 | Capital reserve $'000 | Fair value reserve $'000 | Currency translation reserve $'000 | Accumulated profits $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| At 1 January 2008 | 88,032 | 182 | 2,534 | 566 | 32,607 | 123,921 |
| Translation differences of net assets of foreign subsidiaries and associates | – | – | – | (2,290) | – | (2,290) |
| Capitalisation of statutory legal reserves of an associate | – | 51 | – | – | (51) | – |
| Net change in the fair value of available-for-sale financial assets, net of tax | – | – | (3,392) | – | – | (3,392) |
| Net loss recognised directly in equity | – | 51 | (3,392) | (2,290) | (51) | (5,682) |
| Net profit for the year | – | – | – | – | 8,015 | 8,015 |
| Total recognised income and expense for the year | – | 51 | (3,392) | (2,290) | 7,964 | 2,333 |
| Final one-tier tax exempt dividend of 3.25 cents per share in respect of year 2007 | – | – | – | – | (4,039) | (4,039) |
| Interim one-tier tax exempt dividend of 1.0 cent per share in respect of year 2008 | – | – | – | – | (1,243) | (1,243) |
| **At 31 December 2008** | **88,032** | **233** | **(858)** | **(1,724)** | **35,289** | **120,972** |
| At 1 January 2007 | 77,675 | 128 | – | 379 | 37,725 | 115,907 |
| Translation differences of net assets of foreign subsidiaries and associates | – | – | – | 187 | – | 187 |
| Capitalisation of statutory legal reserves of an associate | – | 54 | – | – | (54) | – |
| Net change in the fair value of available-for-sale financial assets, net of tax | – | – | 2,534 | – | – | 2,534 |
| Net gain recognised directly in equity | – | 54 | 2,534 | 187 | (54) | 2,721 |
| Net profit for the year | – | – | – | – | 12,856 | 12,856 |
| Total recognised income and expense for the year | – | 54 | 2,534 | 187 | 12,802 | 15,577 |
| 78,200 ordinary shares issued pursuant to exercise of IFS (2000) Share Option Scheme | 39 | – | – | – | – | 39 |
| Issue of rights shares, net of expenses | 10,318 | – | – | – | – | 10,318 |
| First and final dividend paid of 17.5 cents per share less tax of 18% in respect of year 2006 | – | – | – | – | (14,863) | (14,863) |
| Interim dividend of 3.0 cents per share less tax at 18% in respect of year 2007 | – | – | – | – | (3,057) | (3,057) |
| At 31 December 2007 | 88,032 | 182 | 2,534 | 566 | 32,607 | 123,921 |

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

# Consolidated Cash Flow Statement

Year ended 31 December 2008

| | 2008<br>$'000 | 2007<br>$'000 |
|---|---|---|
| **Operating activities** | | |
| Net profit for the year | 8,015 | 12,856 |
| Adjustments for: | | |
| Share of after-tax results of associates | (1,894) | (1,369) |
| Amortisation of | | |
| – intangible assets | 194 | 174 |
| – held-to-maturity debt securities | 72 | 102 |
| Net foreign exchange loss | 61 | 207 |
| Factoring receivables written off | 82 | – |
| Depreciation of property, plant and equipment | 882 | 864 |
| Gain on disposal of equity securities | (2,014) | (6,306) |
| Gain on disposal of property, plant and equipment | (1) | – |
| Remaining proceeds from disposal of an investment in prior year | (512) | – |
| Net change in fair value of financial assets through profit or loss | 995 | (302) |
| Net change in fair value of derivatives | (122) | 159 |
| Property, plant and equipment written off | 1 | 4 |
| Allowance for impairment of investments | 1,839 | 369 |
| Provisions for/(reversals of) | | |
| – unexpired risks | 915 | (179) |
| – insurance claims | (4,187) | (77) |
| Interest income | (20,481) | (23,949) |
| Investment income from bonds and available-for-sale investment | (1,099) | (1,047) |
| Interest income from held-to-maturity debt securities and fixed deposits | (403) | (110) |
| Financial expense | 138 | 182 |
| Interest expense | 9,405 | 10,714 |
| Dividend income from investment | (689) | (395) |
| Tax credit | (158) | (179) |
| **Operating cash flows before changes in working capital** | (8,961) | (8,282) |
| | | |
| Changes in working capital: | | |
| Factoring receivables | 38,025 | 13,862 |
| Factoring amounts due to clients | (6,236) | (2,180) |
| Loans, advances, hire purchase and leasing receivables | 18,796 | (5,381) |
| Other and insurance receivables | (522) | (101) |
| Trade, other and insurance payables | (10,356) | 5,266 |
| Cash generated from operations | 30,746 | 3,184 |

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

# Consolidated Cash Flow Statement

Year ended 31 December 2008

| | 2008<br>$'000 | 2007<br>$'000 |
|---|---|---|
| Balance brought forward | 30,746 | 3,184 |
| | | |
| Interest received | 20,095 | 23,842 |
| Interest received from investments | 1,502 | 1,157 |
| Interest paid | (9,376) | (11,477) |
| Income taxes paid, net | (3,167) | (2,751) |
| **Cash flows from operating activities** | 39,800 | 13,955 |
| | | |
| **Investing activities** | | |
| Disbursement of loans to associate, net | (81) | (143) |
| Investment in associate | – | (2,672) |
| Purchase of property, plant and equipment | (502) | (324) |
| Purchase of intangible assets | (308) | (202) |
| Proceeds from sale of property, plant and equipment | 4 | – |
| Purchase of investments | (34,298) | (61,772) |
| Proceeds from disposal of investments | 50,908 | 57,728 |
| Remaining proceeds from disposal of an investment in prior year | 512 | – |
| Loan to minority shareholder | – | 5 |
| Dividends received from investments | 689 | 395 |
| Dividends received from associate | 526 | 409 |
| **Cash flows from/(used in) investing activities** | 17,450 | (6,576) |
| | | |
| **Financing activities** | | |
| Dividends paid | (5,282) | (17,920) |
| (Repayments of)/proceeds from interest-bearing borrowings | (63,852) | 12,172 |
| Proceeds from issue of share option scheme | – | 39 |
| Proceeds from rights issue net of incidental expenses | – | 10,318 |
| **Cash flows (used in)/from financing activities** | (69,134) | 4,609 |
| **Net (decrease)/increase in cash and cash equivalents** | (11,884) | 11,988 |
| Cash and cash equivalents at beginning of year | 37,090 | 25,503 |
| Effect of exchange rate fluctuations on cash held | (134) | (401) |
| **Cash and cash equivalents at end of year (Note 17)** | 25,072 | 37,090 |

# Notes to the Financial Statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 26 February 2009.

## 1 DOMICILE AND ACTIVITIES

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

The principal activities of the Company are those relating to the provision of commercial finance such as factoring services and working capital and asset based financing. The principal activities of the subsidiaries are detailed in Note 5 below.

The consolidated financial statements relate to the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

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

The financial statements are presented in Singapore dollars which is the Company's functional currency, unless otherwise stated.

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.1 Basis of preparation *(cont'd)*

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 39.

Accounting policies relating to the following types of transaction were adopted during the year:

- Amendments to FRS 39 – *Amendments relating to reclassification of financial assets*
- Amendments to FRS107 – *Amendments relating to reclassification of financial assets*
- INT FRS 111 FRS 102 – *Group and Treasury Share Transactions*
- INT FRS 112 – *Service Concession Arrangements*
- INT FRS 114 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The Group has assessed the above changes in accounting policies to have no material impact to the comparatives or the opening balance of accumulated profits of the Group. The Group has not reclassified any financial instruments relating to Amendments to FRS 39.

Except for the above changes, the accounting policies set out below have been applied consistently by the Group. The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

### 2.2 Consolidation

***Business combinations***

Business combinations are accounted for under the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the income statement in the period of the acquisition.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.2 Consolidation *(cont'd)*

***Subsidiaries***

Subsidiaries are companies controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

***Associates***

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

***Transactions eliminated on consolidation***

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

***Accounting for subsidiaries and associates by the Company***

Investments in subsidiaries and associates are stated in the Company's balance sheet at cost less accumulated impairment losses.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.3 Affiliated companies

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

### 2.4 Foreign currencies

***Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Singapore dollars at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Singapore dollars at the exchange rates at the date on which the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of monetary items that in substance form part of the Group's net investment in a foreign operation (see below), and available-for-sale equity instruments.

***Foreign operations***

The assets and liabilities of foreign operations are translated to Singapore dollars at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates prevailing at the dates of the transactions.

Foreign currency differences are recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign exchange translation reserve is transferred to the income statement.

***Net investment in foreign operations***

Exchange differences arising from monetary items that in substance form part of the Company's net investment in a foreign operation are recognised in the Company's income statement. Such exchange differences are reclassified to equity in the consolidated financial statements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.5 Classification of Insurance contracts

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

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

***Credit insurance***

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

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

***Bond and guarantee insurance contracts***

Risks covered under the guarantee business are related to the client's performance capabilities to meet the requirements of projects or contracts, for which the Group issues bonds and guarantees on behalf of the clients. The major classes of bonds and guarantees issued include Performance Bond, Advance Payment Bond, Contract Tender Bond / Bid Bond, Qualifying Certificate Bond, Customs Bond, Foreign Worker Bond, Tenancy / Rental Bond and Account Payment Bond.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.6 Recognition and measurement of insurance contracts

***Premiums and provision for unexpired risk***

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

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

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

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

***Fees and other charges to policyholders***

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

***Claims incurred and provision for insurance claims***

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

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

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

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

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

***Reinsurance***

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

Reinsurance premium expense, reinsurers' share of claims incurred and reinsurance commission income are presented in the income statement and balance sheet on a gross basis.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

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

***Reinsurance*** *(cont'd)*

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

***Commission expense***

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

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

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

***Commission income***

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

***Claim recoveries***

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

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

***Liability adequacy test***

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

### 2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

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

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

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis over the estimated useful lives (or lease term, if shorter) of each part of an item of property, plant and equipment.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

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

The estimated useful lives are as follows:

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

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

### 2.8 Intangible assets

***Computer software***

Computer software is stated at cost less accumulated amortisation and impairment losses. Computer software is amortised in the income statement on a straight-line basis over the estimated useful lives of 3 to 5 years, from the date on which they are available for use.

### 2.9 Financial instruments

***Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, insurance, trade and other receivables, cash and cash equivalents, financial liabilities, insurance, trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.9 Financial instruments *(cont'd)*

***Non-derivative financial instruments*** *(cont'd)*

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, ie, the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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

*a) Investments at fair value through profit or loss*

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated as fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction cost is recognised in the income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

*b) Held-to-maturity investments*

If the Group has the positive intent and ability to hold debt securities to maturity, they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.9 Financial instruments *(cont'd)*

***Non-derivative financial instruments*** *(cont'd)*

c) *Available-for-sale financial assets*

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than for impairment losses, and foreign exchange gains and losses on available-for-sale monetary items (see note 2.4), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

d) *Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

***Derivative financial instruments***

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.9 Financial instruments *(cont'd)*

***Derivative financial instruments*** *(cont'd)*

*Separable embedded derivatives*

Changes in the value of separable embedded derivatives are recognised immediately in the income statement.

***Financial guarantees***

Financial guarantees are classified as financial liabilities.

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

***Share capital***

Ordinary shares are classified as equity.

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

### 2.10 Impairment

***Financial assets***

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.10 Impairment *(cont'd)*

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

***Non-financial assets***

The carrying amounts of the Group's non-financial assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For goodwill recoverable amount is estimated at each reporting date, and as and when indicators of impairment are identified.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement unless it reverses a previous revaluation, credited to equity, in which case it is charged to equity. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.10 Impairment *(cont'd)*

***Non-financial assets*** *(cont'd)*

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

### 2.11 Leases

*When entities within the Group are lessees of an operating lease*

Where the Group has the use of assets under operating leases, payments made under the leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

### 2.12 Employee benefits

***Defined contributions plans***

Obligations for contributions to statutory defined contribution pension plan are recognised as an expense in the income statement as incurred.

***Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.13 Provisions

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

### 2.14 Revenue Recognition

***Interest income***

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

***Fee and commission income***

Fee and commission income are recognised in the income statement on an accrual basis.

***Management fees***

Management fees are recognised on an accrual basis.

***Interest expense***

Interest expense is recognised in the income statement at amortised cost using the effective interest rate method.

***Interest income from debt securities and bank deposits***

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

***Dividend income***

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

### 2.15 Dividends

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### 2.16 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

### 2.17 Deposits relating to collaterals of clients

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

### 2.18 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## 3 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land $'000 | Leasehold building $'000 | Freehold residential properties $'000 | Renovations $'000 | Office equipment, furniture and fittings $'000 | Computer equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 January 2007 | 12,822 | 10,510 | 495 | 720 | 1,227 | 1,539 | 205 | 27,518 |
| Additions | – | – | – | 5 | 99 | 219 | 1 | 324 |
| Disposals | – | – | – | (4) | (1) | – | – | (5) |
| Write-off | – | – | – | (69) | (89) | (588) | – | (746) |
| Translation adjustment | – | – | – | 1 | (12) | (5) | (15) | (31) |
| At 31 December 2007 | 12,822 | 10,510 | 495 | 653 | 1,224 | 1,165 | 191 | 27,060 |
| Additions | – | – | – | 95 | 197 | 183 | 27 | 502 |
| Disposals | – | – | – | – | (22) | (28) | – | (50) |
| Write-off | – | – | – | – | (64) | (244) | – | (308) |
| Translation adjustment | – | – | – | (3) | (15) | (9) | (17) | (44) |
| **At 31 December 2008** | **12,822** | **10,510** | **495** | **745** | **1,320** | **1,067** | **201** | **27,160** |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2007 | 1,469 | 2,768 | 389 | 654 | 991 | 1,184 | 29 | 7,484 |
| Depreciation for the year | 139 | 397 | 4 | 33 | 85 | 168 | 38 | 864 |
| Disposals | – | – | – | (4) | (1) | – | – | (5) |
| Write-off | – | – | – | (69) | (88) | (585) | – | (742) |
| Translation adjustment | – | – | – | – | (5) | (4) | (3) | (12) |
| At 31 December 2007 | 1,608 | 3,165 | 393 | 614 | 982 | 763 | 64 | 7,589 |
| Depreciation for the year | 140 | 397 | 4 | 38 | 107 | 157 | 39 | 882 |
| Disposals | – | – | – | – | (22) | (25) | – | (47) |
| Write-off | – | – | – | – | (64) | (243) | – | (307) |
| Translation adjustment | – | – | – | (1) | (8) | (7) | (7) | (23) |
| **At 31 December 2008** | **1,748** | **3,562** | **397** | **651** | **995** | **645** | **96** | **8,094** |
| **Carrying amount** | | | | | | | | |
| At 1 January 2007 | 11,353 | 7,742 | 106 | 66 | 236 | 355 | 176 | 20,034 |
| At 31 December 2007 | 11,214 | 7,345 | 102 | 39 | 242 | 402 | 127 | 19,471 |
| **At 31 December 2008** | **11,074** | **6,948** | **98** | **94** | **325** | **422** | **105** | **19,066** |

# NOTES TO THE FINANCIAL STATEMENTS

## 3 PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

| | Leasehold land $'000 | Leasehold building $'000 | Freehold residential properties $'000 | Renovations $'000 | Office equipment, furniture and fittings $'000 | Computer equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Company** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 January 2007 | 12,822 | 10,510 | 495 | 594 | 983 | 787 | 10 | 26,201 |
| Additions | – | – | – | – | 82 | 185 | – | 267 |
| Disposals | – | – | – | (69) | (70) | (194) | – | (333) |
| At 31 December 2007 | 12,822 | 10,510 | 495 | 525 | 995 | 778 | 10 | 26,135 |
| Additions | – | – | – | 86 | 134 | 35 | – | 255 |
| Disposal | – | – | – | – | (21) | (25) | – | (46) |
| Write-off | – | – | – | – | (64) | (244) | – | (308) |
| **At 31 December 2008** | **12,822** | **10,510** | **495** | **611** | **1,044** | **544** | **10** | **26,036** |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2007 | 1,469 | 2,768 | 389 | 591 | 916 | 669 | 9 | 6,811 |
| Depreciation for the year | 139 | 397 | 4 | 2 | 38 | 65 | 1 | 646 |
| Disposals | – | – | – | (69) | (70) | (194) | – | (333) |
| At 31 December 2007 | 1,608 | 3,165 | 393 | 524 | 884 | 540 | 10 | 7,124 |
| Depreciation for the year | 140 | 397 | 4 | 22 | 57 | 71 | – | 691 |
| Disposals | – | – | – | – | (20) | (23) | – | (43) |
| Write-off | – | – | – | – | (64) | (243) | – | (307) |
| **At 31 December 2008** | **1,748** | **3,562** | **397** | **546** | **857** | **345** | **10** | **7,465** |
| **Carrying amount** | | | | | | | | |
| At 1 January 2007 | 11,353 | 7,742 | 106 | 3 | 67 | 118 | 1 | 19,390 |
| At 31 December 2007 | 11,214 | 7,345 | 102 | 1 | 111 | 238 | – | 19,011 |
| **At 31 December 2008** | **11,074** | **6,948** | **98** | **65** | **187** | **199** | **–** | **18,571** |

## 3 PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

The Company's properties consist of the following:

| Location | Title | Description of properties |
|---|---|---|
| 7 Temasek Boulevard #10-01<br>Singapore 038987 | Leasehold<br>(99 years from 1995) | Offices |
| Lot 1647, Title No. EMR 75,<br>Mukim of Pengereng,<br>District of Kota Tinggi, Johore,<br>Malaysia | Freehold | Residential building |
| #14-06 Seaview Tower,<br>Ocean Palms Klebang Besar,<br>Malacca<br>Malaysia | Freehold | Residential apartment |

## 4 INTANGIBLE ASSETS

| | Computer software $'000 |
|---|---|
| **Group** | |
| **Cost** | |
| At 1 January 2007 | 4,189 |
| Additions | 202 |
| Write-off | (413) |
| Translation adjustment | (4) |
| At 31 December 2007 | 3,974 |
| Additions | **308** |
| Translation adjustment | **(9)** |
| **At 31 December 2008** | **4,273** |
| **Accumulated amortisation** | |
| At 1 January 2007 | 3,918 |
| Amortisation charge for the year | 174 |
| Write-off | (413) |
| Translation adjustment | (2) |
| At 31 December 2007 | 3,677 |
| Amortisation charge for the year | **194** |
| Translation adjustment | **(4)** |
| **At 31 December 2008** | **3,867** |
| **Carrying amount** | |
| At 1 January 2007 | 271 |
| At 31 December 2007 | 297 |
| **At 31 December 2008** | **406** |

## 4 INTANGIBLE ASSETS *(cont'd)*

| | Computer software $'000 |
|---|---|
| **Company** | |
| **Cost** | |
| At 1 January 2007 | 3,868 |
| Additions | 70 |
| Disposal | (413) |
| At 31 December 2007 | 3,525 |
| Additions | **81** |
| **At 31 December 2008** | **3,606** |
| **Accumulated amortisation** | |
| At 1 January 2007 | 3,716 |
| Amortisation charge for the year | 104 |
| Disposal | (413) |
| At 31 December 2007 | 3,407 |
| Amortisation charge for the year | **82** |
| **At 31 December 2008** | **3,489** |
| **Carrying amount** | |
| At 1 January 2007 | 152 |
| At 31 December 2007 | 118 |
| **At 31 December 2008** | **117** |

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

## 5 SUBSIDIARIES

| | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|
| Unquoted ordinary shares, at cost | – | – | 48,018 | 48,018 |
| Impairment losses | – | – | (1,523) | (1,523) |
| | – | – | 46,495 | 46,495 |

Details of the subsidiaries are as follows:

| Company name | Country of incorporation | Proportion of Ownership Interest | | |
|---|---|---|---|---|
| **Principal direct and indirect subsidiaries** | | **Group's effective interest %** | **Held by Company %** | **Held by Subsidiary %** |
| (a) IFS Capital Assets Private Limited | Singapore | 100 | 100 | – |
| IFS Ventures Private Limited | Singapore | 100 | – | 100 |
| IFS Ventures 2 Limited | Singapore | 100 | 25 | 75 |
| ECIL Ltd. | Singapore | 100 | – | 100 |
| ECGC Ltd. | Singapore | 100 | – | 100 |
| (b) ECICS Limited | Singapore | 100 | 100 | – |
| (c) IFS Capital (Malaysia) Sdn. Bhd. | Malaysia | 70+ | 70+ | – |
| IFS Factors (Malaysia) Sdn. Bhd. | Malaysia | 30+ | – | 30+* |
| (d) PT. IFS Capital Indonesia | Indonesia | 85+ | 85+ | – |
| (e) IFS Capital (Hong Kong) Limited | Hong Kong | 100 | 100 | – |

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

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

## 5 SUBSIDIARIES *(cont'd)*

The principal activities of the subsidiaries are as follows:

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

1 Audited by KPMG LLP Singapore
2 Audited by other member firm of KPMG International
3 Audited by Ernst and Young, Indonesia
4 Audited by Peter W.H. Ma & Co, Hong Kong

KPMG LLP Singapore is the auditor of all significant Singapore-incorporated subsidiaries. For this purpose, a subsidiary is considered significant as defined under the Singapore Exchange Limited Listing Manual if its net tangible assets represent 20% or more of the Group's consolidated net tangible assets, or if its pre-tax profits account for 20% or more of the Group's consolidated pre-tax profits.

## 6 ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Unlisted shares, at cost | – | – | 7,903 | 7,903 |
| Share of net assets | 11,304 | 11,557 | – | – |
| Loans to associates: | | | | |
| – Interest-bearing | 211 | 161 | 211 | 161 |
| – Non-interest bearing | 31 | – | 31 | – |
| | 242 | 161 | 242 | 161 |
| | 11,546 | 11,718 | 8,145 | 8,064 |

Interest-bearing loans to associates are denominated in Thai Baht (2007: loans are denominated in Singapore Dollars) and form part of the Company's net investment in the associates. The loans are unsecured and are repayable on demand. As the amount is, in substance, a part of the Company's net investment in the entity, it is stated at cost.

The weighted average effective interest rate of interest bearing loan to associates at the end of the financial year is 7.5% per annum (2007: 3.4% per annum). Interest rate is repriced at monthly intervals.

Details of the associates are as follows:

| Name of associates | Country of incorporation | Effective equity held by the Group | |
|---|---|---|---|
| | | 2008 | 2007 |
| | | % | % |
| [1] IFS Capital Holdings (Thailand) Limited | Thailand | 45.0 | 45.0 |
| [1] IFS Capital (Thailand) Public Company Limited | Thailand | 49.0 | 49.0 |

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

## 6 ASSOCIATES *(cont'd)*

An associated company is considered significant as defined under the Singapore Exchange Limited Listing Manual if the Group's share of its net tangible assets represent 20% or more of the Group's consolidated net tangible assets, or if the Group's share of its pre-tax profits accounts for 20% or more of the Group's consolidated pre-tax profits.

The summarised financial information relating to the associates which is not adjusted for the percentage of ownership held by the Group is as follows:

| | 2008<br>$'000 | 2007<br>$'000 |
|---|---|---|
| **Assets and liabilities** | | |
| Non-current assets | **26,045** | 20,682 |
| Current assets | **85,912** | 121,988 |
| Total assets | **111,957** | 142,670 |
| Non-current liabilities | **3,888** | 5,763 |
| Current liabilities | **84,886** | 113,201 |
| Total liabilities | **88,774** | 118,964 |
| **Results** | | |
| Revenue | **12,233** | 11,019 |
| Profit after taxation | **3,938** | 2,834 |

The Group's share of unused letters of credit facilities of the associates is $nil (2007: $4.0 million).

## 7 OTHER INVESTMENTS

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| **Non-current investments** | | | | | |
| Debt securities | | | | | |
| *Held-to-maturity* | | | | | |
| At amortised cost | | | | | |
| – Quoted corporate bonds | (a) | 13,945 | 9,063 | – | – |
| – Unquoted corporate bonds | (a) | 5,986 | 1,001 | – | – |
| | | 19,931 | 10,064 | – | – |
| Equity securities | | | | | |
| *Available-for-sale* | | | | | |
| At fair value | | | | | |
| – Quoted equity | | 2,335 | 6,490 | – | – |
| – Unquoted equity | | 10,773 | 13,370 | 4,611 | 4,712 |
| Allowance for impairment loss | | (3,772) | (4,766) | – | – |
| | | 9,336 | 15,094 | 4,611 | 4,712 |
| At cost | | | | | |
| – Unquoted equity | (b) | 721 | 6,810 | – | – |
| Allowance for impairment loss | | (702) | – | – | – |
| | | 19 | 6,810 | – | – |
| *Designated at fair value through profit or loss* | (c) | – | 5,629 | – | – |
| | | 29,286 | 37,597 | 4,611 | 4,712 |

## 7 OTHER INVESTMENTS *(cont'd)*

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| **Current investments** | | | | | |
| Debt securities | | | | | |
| *Held-to-maturity* | | | | | |
| At amortised cost | | | | | |
| – Quoted corporate bonds | (a) | 9,513 | 9,507 | – | – |
| – Unquoted corporate bonds | (a) | 5,984 | 3,000 | – | – |
| | | 15,497 | 12,507 | – | – |
| *Available-for-sale* | | | | | |
| Convertible bond, at fair value | (d) | 4,619 | 4,691 | – | – |
| Allowance for impairment loss | | (1,806) | – | – | – |
| | | 2,813 | 4,691 | – | – |
| Equity securities | | | | | |
| *Held-for-trading* | | | | | |
| At fair value | | 226 | 14,374 | 41 | 205 |
| Financial derivatives | | | | | |
| At fair value through profit or loss | (e) | 336 | 1,148 | – | – |
| | | 18,872 | 32,720 | 41 | 205 |
| Total | | 48,158 | 70,317 | 4,652 | 4,917 |

(a) Held-to-maturity debt securities have interest rates of 2.3% to 5.1% (2007: 2.8% to 5.1%) per annum and mature in 1 to 5 years.

(b) The Group's subsidiary disposed its 10% equity interest in an investment with a carrying amount of $7.31 million and the gain on disposal amounted to $1.94 million is recognised in the Income Statement.

(c) The Group's subsidiary disposed its investment designated as fair value through profit or loss.

(d) The Group's subsidiary exercised its conversion option on the convertible bond upon due date. However, discussions are on-going between the issuer of the convertible bond and the bondholders on the possibility of a restructuring.

(e) Included in the financial derivatives at fair value through profit or loss is a put option, with expiry date in 2010. The option may be exercised if a reverse takeover of the issuer is successful.

## 7 OTHER INVESTMENTS *(cont'd)*

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

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

| | Note | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|---|
| At 1 January | | **4,766** | 7,383 |
| Allowance made during the year (net) | 32 | **1,838** | 369 |
| Reversal to profit or loss from fair value reserve through equity | | **500** | (500) |
| Allowance utilised during the year | | **(824)** | (2,486) |
| At 31 December | | **6,280** | 4,766 |

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

***Effective interest rates and repricing analysis:***

| | Weighted average effective interest rate % | Fixed interest rate maturing within 1 year $'000 | Fixed interest rate maturing in 1 to 5 years $'000 | Total $'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2008** | | | | |
| *Debt securities held-to-maturity* | | | | |
| Quoted corporate bonds | **3.1** | **9,513** | **13,945** | **23,458** |
| Unquoted corporate bonds | **4.4** | **5,984** | **5,986** | **11,970** |
| | | **15,497** | **19,931** | **35,428** |
| **2007** | | | | |
| *Debt securities held-to-maturity* | | | | |
| Quoted corporate bonds | 3.6 | 9,507 | 9,063 | 18,570 |
| Unquoted corporate bonds | 2.9 | 3,000 | 1,001 | 4,001 |
| | | 12,507 | 10,064 | 22,571 |

## 8 LOANS, ADVANCES, HIRE PURCHASE AND LEASING RECEIVABLES

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| Hire purchase and leasing receivables | 9 | 75,744 | 73,317 | 52,257 | 63,585 |
| Loans and advances | | 126,002 | 146,314 | 114,662 | 133,468 |
| | | 201,746 | 219,631 | 166,919 | 197,053 |
| Allowance for impairment of doubtful receivables | | | | | |
| – hire purchase receivables | | (750) | (1,004) | (660) | (1,004) |
| – leasing receivables | | (198) | (131) | – | – |
| – loans and advances | | (10,603) | (9,505) | (10,353) | (9,167) |
| | | (11,551) | (10,640) | (11,013) | (10,171) |
| | 38 | 190,195 | 208,991 | 155,906 | 186,882 |
| Due within 12 months | 14 | 121,196 | 135,100 | 105,178 | 123,047 |
| Due after 12 months | | 68,999 | 73,891 | 50,728 | 63,835 |
| | | 190,195 | 208,991 | 155,906 | 186,882 |

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

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| At 1 January | | 10,640 | 12,604 | 10,171 | 10,261 |
| Translation adjustment | | (29) | (5) | – | – |
| Allowance made/(reversed) during the year (net) | 32 | 2,347 | (1,164) | 2,249 | 576 |
| Allowance utilised during the year | | (1,407) | (795) | (1,407) | (666) |
| At 31 December | | 11,551 | 10,640 | 11,013 | 10,171 |

## 8 LOANS, ADVANCES, HIRE PURCHASE AND LEASING RECEIVABLES *(cont'd)*

***Effective interest rates and repricing analysis:***

| | Weighted average effective interest rate % | Floating rate $'000 | Fixed interest rate maturing within 1 year $'000 | Fixed interest rate maturing in 1 to 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2008** | | | | | |
| Loans, advances, hire purchase and leasing receivables | | | | | |
| – fixed rate | **7.8** | **–** | **41,917** | **32,558** | **74,475** |
| – variable rate | **8.4** | **115,720** | **–** | **–** | **115,720** |
| | | **115,720** | **41,917** | **32,558** | **190,195** |
| **2007** | | | | | |
| Loans, advances, hire purchase and leasing receivables | | | | | |
| – fixed rate | 7.5 | – | 47,400 | 46,296 | 93,696 |
| – variable rate | 7.2 | 115,295 | – | – | 115,295 |
| | | 115,295 | 47,400 | 46,296 | 208,991 |
| **Company** | | | | | |
| **2008** | | | | | |
| Loans, advances , hire purchase and leasing receivables | | | | | |
| – fixed rate | **6.7** | **–** | **28,981** | **17,739** | **46,720** |
| – variable rate | **8.3** | **109,186** | **–** | **–** | **109,186** |
| | | **109,186** | **28,981** | **17,739** | **155,906** |
| **2007** | | | | | |
| Loans, advances, hire purchase and leasing receivables | | | | | |
| – fixed rate | 6.9 | – | 40,298 | 40,519 | 80,817 |
| – variable rate | 7.2 | 106,065 | – | – | 106,065 |
| | | 106,065 | 40,298 | 40,519 | 186,882 |

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

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

## 9 HIRE PURCHASE AND LEASING RECEIVABLES

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| Gross receivables | | 78,547 | 74,572 | 52,257 | 63,585 |
| Unearned income | | (2,803) | (1,255) | – | – |
| | 8 | 75,744 | 73,317 | 52,257 | 63,585 |
| Within 1 year | | 40,113 | 32,193 | 29,111 | 27,748 |
| After 1 year but within 5 years | | 35,631 | 41,124 | 23,146 | 35,837 |
| | | 75,744 | 73,317 | 52,257 | 63,585 |

## 10 DEFERRED TAX

Movements in deferred tax assets and liabilities of the Group (prior to offsetting of balances) during the year are as follows:

| | At 1/1/2008 $'000 | Recognised in income statement (note 34) $'000 | Recognised in equity $'000 | Exchange differences $'000 | At 31/12/2008 $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | 137 | 23 | – | (2) | 158 |
| Trade and other receivables | 57 | 10 | – | – | 67 |
| Trade and other payables | 6 | – | – | – | 6 |
| Dividend not remitted to Singapore | 121 | – | – | – | 121 |
| Other investments | 646 | (43) | (589) | (1) | 13 |
| | 967 | (10) | (589) | (3) | 365 |
| **Deferred tax assets** | | | | | |
| Loans, advances, hire purchase and leasing receivables | (720) | (230) | – | 2 | (948) |
| Factoring receivables | (312) | (181) | – | – | (493) |
| Other investments | (46) | (268) | (156) | – | (470) |
| Others | (41) | (11) | – | 5 | (47) |
| | (1,119) | (690) | (156) | 7 | (1,958) |

## 10 DEFERRED TAX *(cont'd)*

| | At 1/1/2007 $'000 | Recognised in income statement (note 34) $'000 | Recognised in equity $'000 | Exchange differences $'000 | At 31/12/2007 $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | 114 | 23 | – | – | 137 |
| Trade and other receivables | 24 | 33 | – | – | 57 |
| Trade and other payables | (10) | 16 | – | – | 6 |
| Dividend not remitted to Singapore | 327 | (206) | – | – | 121 |
| Other investments | – | 44 | 602 | – | 646 |
| | 455 | (90) | 602 | – | 967 |
| **Deferred tax assets** | | | | | |
| Loans, advances, hire purchase and leasing receivables | (2,419) | 1,699 | – | – | (720) |
| Factoring receivables | (913) | 601 | – | – | (312) |
| Other investments | – | – | (46) | – | (46) |
| Others | (17) | (27) | – | 3 | (41) |
| | (3,349) | 2,273 | (46) | 3 | (1,119) |

Deferred tax assets and liabilities of the Company (prior to offsetting of balances) are attributable to the following:

| | At 31/12/2008 $'000 | At 31/12/2007 $'000 |
|---|---|---|
| **Company** | | |
| **Deferred tax liabilities** | | |
| Property, plant and equipment | 69 | 72 |
| Other investments | – | 12 |
| | 69 | 84 |
| **Deferred tax assets** | | |
| Loans, advances, hire purchase and leasing receivables | (892) | (684) |
| Factoring receivables | (493) | (312) |
| Other investments | (6) | – |
| | (1,391) | (996) |

## 10 DEFERRED TAX *(cont'd)*

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relate to the same taxation authority. The amounts determined after appropriate offsetting are included in the balance sheets as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| **Deferred tax assets** | **1,707** | 979 | **1,322** | 912 |
| **Deferred tax liabilities** | **114** | 826 | **–** | – |

Deferred tax assets have not been recognised in respect of the following temporary differences:

| | Group | |
|---|---|---|
| | 2008 | 2007 |
| | $'000 | $'000 |
| Loans, advances, hire purchase and leasing receivables | **68** | 233 |
| Impairment on investments | **–** | 231 |
| Tax losses | **896** | 2,504 |
| | **964** | 2,968 |
| Net deferred tax at 18% (2007: 18%) | **173** | 534 |

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

## 11 DERIVATIVE FINANCIAL INSTRUMENTS

| | Group and Company | |
|---|---|---|
| | 2008 | 2007 |
| | $'000 | $'000 |
| **Assets** | | |
| Foreign exchange forward contracts | 117 | – |
| Interest rate cap & floors | – | 2 |
| | 117 | 2 |
| **Liability** | | |
| Non deliverable forward | – | (7) |

As at 31 December 2008, the Group has a net asset US dollar exposure amounting to US$16 million. To hedge this exposure, the Group entered into foreign exchange forward contracts of notional amount of US$15 million.

## 12 REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS

| | Group | |
|---|---|---|
| | 2008 | 2007 |
| | $'000 | $'000 |
| Reinsurers' share of insurance contract provisions | | |
| – Unexpired risks | 27,103 | 24,435 |
| – Insurance claims | 2,930 | 2,474 |
| | 30,033 | 26,909 |

***Unexpired risks***

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | | |
| At 1 January | 31,368 | (24,435) | 6,933 | 28,520 | (21,408) | 7,112 |
| Change during the year | 3,583 | (2,668) | 915 | 2,848 | (3,027) | (179) |
| At 31 December | 34,951 | (27,103) | 7,848 | 31,368 | (24,435) | 6,933 |

## 12 REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS *(cont'd)*

The balance of net unexpired risks provision arising from acquisition of ECICS Credit Insurance Ltd ("ECIL") and ECICS Credit and Guarantee Company (Singapore) Ltd ("ECGC") businesses in 2003 at balance sheet date is $313,000 (2007: $296,000).

***Insurance claims***

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Gross $'000 | Reinsurance $'000 | Net $'000 | Gross $'000 | Reinsurance $'000 | Net $'000 |
| **Group** | | | | | | |
| At 1 January | 10,400 | (2,474) | 7,926 | 10,345 | (2,342) | 8,003 |
| Change in specific reserves for reported claims | (3,120) | (735) | (3,855) | (2,331) | 1,013 | (1,318) |
| Change in incurred-but-not-reported losses | (611) | 279 | (332) | 2,386 | (1,145) | 1,241 |
| At 31 December | 6,669 | (2,930) | 3,739 | 10,400 | (2,474) | 7,926 |
| Claims paid | 4,708 | (1,129) | 3,579 | 5,003 | (2,496) | 2,507 |
| Claims recovered | (1,583) | 1,044 | (539) | (1,107) | 758 | (349) |
| Net claims paid/(recovered) | 3,125 | (85) | 3,040 | 3,896 | (1,738) | 2,158 |

The balance of net insurance claims provision arising from acquisition of ECIL and ECGC businesses as at balance sheet date is $78,408 (2007: $3,937,670).

Net claims paid/(recovered) for the year on risks underwritten by ECIL or ECGC and transferred to ECICS amounted to $2,997,946 (2007: ($170,464)).

## 12 REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS *(cont'd)*

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

| | Group | |
|---|---|---|
| | 2008 | 2007 |
| | $'000 | $'000 |
| Less than 1 year | **2,723** | 5,156 |
| Between 1-2 years | **808** | 1,108 |
| Between 2-3 years | **189** | 831 |
| Between 3-4 years | **19** | 554 |
| Between 4-5 years | **–** | 277 |
| | **3,739** | 7,926 |

## 13 INSURANCE RECEIVABLES

| | Group | |
|---|---|---|
| | 2008 | 2007 |
| | $'000 | $'000 |
| Receivables arising from insurance contracts | **1,552** | 1,203 |
| Allowance for doubtful receivables | **(289)** | (181) |
| | **1,263** | 1,022 |
| Reinsurance contract receivables | **496** | 4,003 |
| | **1,759** | 5,025 |

Insurance receivables are non interest-earning.

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

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

| | | Group | |
|---|---|---|---|
| | Note | 2008 | 2007 |
| | | $'000 | $'000 |
| At 1 January | | **181** | 618 |
| Allowance made/(reversed) during the year | 32 | **108** | (419) |
| Allowance utilised during the year | | **–** | (18) |
| At 31 December | | **289** | 181 |

## 14 TRADE AND OTHER RECEIVABLES

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| Loans, advances, hire purchase and leasing receivables | 8 | **121,196** | 135,100 | **105,178** | 123,047 |
| Factoring receivables | 15 | **59,224** | 97,249 | **50,901** | 84,528 |
| Amount owing by minority shareholders | | **96** | 96 | **664** | 664 |
| Loan owing by subsidiaries | | | | | |
| – trade | | **–** | – | **24,586** | 20,379 |
| – non-trade | | **–** | – | **50** | 27 |
| Deposits, prepayments and other receivables | 16 | **6,058** | 2,205 | **1,168** | 945 |
| | | **186,574** | 234,650 | **182,547** | 229,590 |

The amount owing by minority shareholders is unsecured, interest-free and is repayable on demand. The loans owing by subsidiaries (trade) are unsecured, interest-bearing and are repayable on demand. There are no allowance for doubtful debts arising from the outstanding balances.

***Effective interest rates and repricing analysis:***

| | Weighted average effective interest rate % | Floating rate $'000 | Fixed interest rate maturing within 1 year $'000 | Non interest-earning $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **2008** | | | | | |
| Loans owing by subsidiaries | | | | | |
| – fixed rate | **4.2** | **–** | **1,814** | **–** | **1,814** |
| – variable rate | **4.5** | **22,772** | **–** | **–** | **22,772** |
| – non interest-earning | **–** | **–** | **–** | **50** | **50** |
| | | **22,772** | **1,814** | **50** | **24,636** |
| **2007** | | | | | |
| Loans owing by subsidiaries | | | | | |
| – fixed rate | 4.4 | – | 1,738 | – | 1,738 |
| – variable rate | 5.2 | 18,641 | – | – | 18,641 |
| – non interest-earning | – | – | – | 27 | 27 |
| | | 18,641 | 1,738 | 27 | 20,406 |

## 14 TRADE AND OTHER RECEIVABLES *(cont'd)*

**Group**

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

## 15 FACTORING RECEIVABLES

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| Factoring receivables | 38 | **140,379** | 198,292 | **124,673** | 179,510 |
| Less: | | | | | |
| Factoring amounts owing to clients | | **(68,929)** | (89,753) | **(61,738)** | (83,804) |
| | | **71,450** | 108,539 | **62,935** | 95,706 |
| Allowance for doubtful receivables | | **(12,226)** | (11,290) | **(12,034)** | (11,178) |
| | 14 | **59,224** | 97,249 | **50,901** | 84,528 |

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

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| At January | | **11,290** | 5,606 | **11,178** | 5,589 |
| Translation adjustment | | **(16)** | (8) | **–** | – |
| Allowance made during the year (net) | 32 | **1,312** | 7,146 | **1,216** | 7,007 |
| Allowance utilised during the year | | **(360)** | (1,454) | **(360)** | (1,418) |
| At 31 December | | **12,226** | 11,290 | **12,034** | 11,178 |

## 15 FACTORING RECEIVABLES *(cont'd)*

The weighted average interest rates of factoring receivables net of factoring amounts owing to clients included in Trade and Other Payables of $13,831,708 for the Group and Company (2007: Group: $20,067,771 and Company: $20,067,432) (refer to Note 23) and allowance for doubtful receivables at the balance sheet date and the periods in which they reprice are as follows:

| | Weighted average effective interest rate % | Floating rate $'000 | Fixed interest rate maturing within 1 year $'000 | Total $'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2008** | | | | |
| Factoring receivables, net | | | | |
| – fixed rate | **5.8** | **–** | **4,636** | **4,636** |
| – variable rate | **8.2** | **40,756** | **–** | **40,756** |
| | | **40,756** | **4,636** | **45,392** |
| **2007** | | | | |
| Factoring receivables, net | | | | |
| – fixed rate | 6.2 | – | 12,774 | 12,774 |
| – variable rate | 8.2 | 64,407 | – | 64,407 |
| | | 64,407 | 12,774 | 77,181 |
| **Company** | | | | |
| **2008** | | | | |
| Factoring receivables, net | | | | |
| – fixed rate | **5.8** | **–** | **4,636** | **4,636** |
| – variable rate | **7.6** | **32,433** | **–** | **32,433** |
| | | **32,433** | **4,636** | **37,069** |
| **2007** | | | | |
| Factoring receivables, net | | | | |
| – fixed rate | 6.2 | – | 12,774 | 12,774 |
| – variable rate | 7.2 | 51,687 | – | 51,687 |
| | | 51,687 | 12,774 | 64,461 |

## 16 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| Deposits | | | | | |
| – own deposits | | 25 | 23 | 12 | 10 |
| – deposits lodged with Monetary Authority of Singapore | | 500 | 500 | – | – |
| | | 525 | 523 | 12 | 10 |
| Prepayments | | 480 | 348 | 215 | 179 |
| Tax recoverable | | 678 | 40 | 621 | – |
| Accrued interest receivable | | 371 | 305 | – | – |
| Other receivables: | | | | | |
| Gross receivables | | 4,856 | 1,407 | 1,169 | 1,171 |
| Allowance for doubtful receivables | | (852) | (418) | (849) | (415) |
| Other receivables, net | | 4,004 | 989 | 320 | 756 |
| | 14 | 6,058 | 2,205 | 1,168 | 945 |

The deposit with Monetary Authority of Singapore ("MAS") consists of a fixed deposit lodged with the MAS under the Insurance Act, Chapter 142.

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

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| At 1 January | | 418 | 280 | 415 | 276 |
| Allowance made during the year (net) | 32 | 538 | 191 | 538 | 192 |
| Allowance utilised during the year | | (104) | (53) | (104) | (53) |
| At 31 December | | 852 | 418 | 849 | 415 |

## 17 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Cash at banks and in hand | 3,659 | 6,575 | 1,891 | 342 |
| Fixed deposits | 21,413 | 31,210 | 2,485 | 2,574 |
| Cash and cash equivalents in the balance sheets | 25,072 | 37,785 | 4,376 | 2,916 |
| Bank overdrafts (unsecured) | – | (695) | – | (695) |
| Cash and cash equivalents in the consolidated statement of cash flows | 25,072 | 37,090 | 4,376 | 2,221 |

***Effective interest rates and repricing analysis:***

| | Weighted average effective interest rate % | Floating rate $'000 | Fixed interest rate maturing within 1 year $'000 | Non interest-earning $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| 2008 | | | | | |
| Cash at banks and in hand | 0.1 | 1,807 | – | 1,852 | 3,659 |
| Fixed deposits | 1.0 | 3,522 | 17,891 | – | 21,413 |
| | | 5,329 | 17,891 | 1,852 | 25,072 |
| 2007 | | | | | |
| Cash at banks and in hand | 0.8 | 2,035 | – | 4,540 | 6,575 |
| Fixed deposits | 1.5 | 23 | 31,187 | – | 31,210 |
| | | 2,058 | 31,187 | 4,540 | 37,785 |
| **Company** | | | | | |
| 2008 | | | | | |
| Cash at banks and in hand | 0.1 | 1,746 | – | 145 | 1,891 |
| Fixed deposits | 1.3 | 2,485 | – | – | 2,485 |
| | | 4,231 | – | 145 | 4,376 |
| 2007 | | | | | |
| Cash at banks and in hand | – | – | – | 342 | 342 |
| Fixed deposits | 2.6 | – | 2,574 | – | 2,574 |
| | | – | 2,574 | 342 | 2,916 |

## 18 DEPOSITS RELATING TO COLLATERALS OF CLIENTS

The Group has fixed deposits of $16,733,734 (2007: $20,052,324) and $nil quoted equity (2007: $8,875,000) held as collaterals for guarantees issued on behalf of policyholders. The fair value of the cash collaterals as at balance sheet date approximate their carrying amounts. These amounts have been excluded from both cash at bank and other payables in the balance sheet.

## 19 SHARE CAPITAL

| | Group and Company No. of shares | |
|---|---|---|
| | **2008** | **2007** |
| At 1 January | **124,287,522** | 103,494,736 |
| Issue of rights shares | **–** | 20,714,586 |
| Exercise of share options | **–** | 78,200 |
| At 31 December | **124,287,522** | 124,287,522 |

There were no shares issued during the year (2007: 78,200) under the Employee Share Option Scheme ("ESOS").

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

***Capital Management***

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

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

## 19 SHARE CAPITAL *(cont'd)*

***Capital Management*** *(cont'd)*

The minimum capital required for the insurance business as stipulated by the local regulator is $25 million. With effect from 1 January 2008, the subsidiary has to comply with the Risk Based Capital Adequacy Requirement ("CAR") of a minimum of 100% (subject to the financial resource of the subsidiary not being less than $5 million). Although the prescribed financial warning event for the CAR is 120%, the Group has set two higher internal trigger limits for monitoring the CAR. In the event of any breaches of the internal trigger limits, the Board has prescribed certain courses of action for the management to undertake to bring the CAR level to the prescribed levels.

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

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

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

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

## 20 EMPLOYEE SHARE OPTIONS

***IFS (2000) Share Option Scheme ("2000 Scheme")***

Under the 2000 Scheme, the subscription price shall be determined by the Committee administering the Scheme at:

(a) daily weighted average price for the ordinary share as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Limited for the 3 consecutive trading days immediately preceding the date of grant of the option ("Market Price"); or

(b) a price which is set at a maximum discount of 20% of the Market Price.

## 20 EMPLOYEE SHARE OPTIONS *(cont'd)*

***IFS (2000) Share Option Scheme ("2000 Scheme")*** *(cont'd)*

All options are settled by physical delivery of shares to The Central Depository (Pte) Limited.

The option can be exercised during the following period:

| Type of options | Exercise period |
|---|---|
| Option with subscription price fixed at Market Price granted to:<br>• Participants other than Non-Executive Directors<br>• Non-Executive Directors | <br><br>• 12 to 120 months from date of grant<br>• 12 to 60 months from date of grant |
| Option with subscription price fixed at a discount to the Market Price granted to:<br>• Participants other than Non-Executive Directors<br>• Non-Executive Directors | <br><br>• 24 to 120 months from date of grant<br>• 24 to 60 months from date of grant |

The Scheme is administered by the Executive Resource and Compensation Committee ("Committee") which comprises the following Non-Executive Directors:

| | |
|---|---|
| • Lim How Teck (Chairman) | Independent |
| • Lim Hua Min | Non-Independent |
| • Gabriel Teo Chen Thye | Independent |

## 20 EMPLOYEE SHARE OPTIONS *(cont'd)*

***IFS (2000) Share Option Scheme*** **("*2000 Scheme*")** *(cont'd)*

At the end of the financial year, unissued shares of the Company under options granted to eligible employees of the Company under the 2000 Scheme are as follows:

| Date of grant of option | Options outstanding as at 1/1/2008 | Options granted | Options exercised | Options cancelled/ lapsed | Options balance as at 31/12/2008 | Options exercisable as at 1/1/2008 | Options exercisable as at 31/12/2008 | Exercise price for all options | Proceeds on exercise of options during the year credited to share capital | Market price of shares at exercise date of option | Exercise dates for options exercised during the year | Exercise period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2000 Scheme** | | | | | | | | | | | | |
| 07/11/2000 | 9,700 | – | – | – | 9,700 | – | – | $0.50 | – | – | – | 08/11/2001 - 06/11/2010 |
| 11/05/2001 | 11,800 | – | – | – | 11,800 | – | – | $0.50 | – | – | – | 12/05/2002 - 10/05/2011 |
| | 21,500 | – | – | – | 21,500 | – | – | | – | – | – | |

No options were exercised in 2008.

Under transitional provision of FRS 102 Share-based Payment, the recognition and measurement principles in FRS 102 have not been applied to all of the above share options as all the share options were granted to eligible employees prior to 22 November 2002.

The weighted average remaining contractual life of the options is 2.1 years (2007: 3.1 years).

## 21 RESERVES

Other reserves comprise:

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Fair value reserve | (858) | 2,534 | (28) | 55 |
| Capital reserve | 233 | 182 | – | – |
| Currency translation reserve | (1,724) | 566 | – | – |
| | (2,349) | 3,282 | (28) | 55 |

***Fair value reserve***

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

***Capital reserve***

The capital reserve comprises statutory legal reserve of an associate.

***Currency translation reserve***

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

***Accumulated profits***

The accumulated profits of the Group include an amount of $4,236,817 (2007: $2,919,609) attributable to associates.

## 21 RESERVES *(cont'd)*

***Dividends***

After the balance sheet date, the directors proposed the following dividends which have not been provided for:

| | Company | |
|---|---|---|
| | 2008 | 2007 |
| | $'000 | $'000 |
| Proposed final one-tier tax exempt dividend of 1.00 cent (2007: 3.25 cents per share) per share in respect of year 2008/2007 | **1,243** | 4,039 |

## 22 INTEREST-BEARING BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Payable: | | | | |
| Within 12 months | **139,091** | 184,235 | **126,641** | 170,670 |
| After 12 months | **61,299** | 80,007 | **60,837** | 80,007 |
| | **200,390** | 264,242 | **187,478** | 250,677 |

The interest-bearing borrowings comprise:

| | Note | 2008 | | 2007 | |
|---|---|---|---|---|---|
| | | Face value | Carrying amount | Face value | Carrying amount |
| | | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | |
| Unsecured short-term bank loans | (a) | **68,372** | **68,372** | 87,374 | 87,374 |
| Unsecured long-term bank loans | (b) | **49,116** | **49,116** | 11,582 | 11,582 |
| Unsecured SPRING and IES loans | (c) | **37,902** | **37,902** | 64,286 | 64,286 |
| Floating rate notes | (d) | **30,000** | **30,000** | 30,000 | 30,000 |
| Fixed rate notes | (e) | **15,000** | **15,000** | 71,000 | 71,000 |
| | | **200,390** | **200,390** | 264,242 | 264,242 |

## 22 INTEREST-BEARING BORROWINGS *(cont'd)*

| | Note | 2008 Face value $'000 | 2008 Carrying amount $'000 | 2007 Face value $'000 | 2007 Carrying amount $'000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| Unsecured short-term bank loans | (a) | **55,922** | **55,922** | 73,809 | 73,809 |
| Unsecured long-term bank loans | (b) | **48,654** | **48,654** | 11,582 | 11,582 |
| Unsecured SPRING and IES loans | (c) | **37,902** | **37,902** | 64,286 | 64,286 |
| Floating rate notes | (d) | **30,000** | **30,000** | 30,000 | 30,000 |
| Fixed rate notes | (e) | **15,000** | **15,000** | 71,000 | 71,000 |
| | | **187,478** | **187,478** | 250,677 | 250,677 |

(a) Unsecured short-term bank loans bear nominal interest rates ranging from 1.9% to 11.1% (2007: 2.1% to 6.2%) per annum and are repayable in 2009. These include subsidiaries' bank loans denominated in Indonesian Rupiah and Malaysian Ringgit.

(b) The unsecured long-term bank loans bear nominal interest rates ranging from 1.7% to 11.1% (2007: 5.9%) per annum and are repayable by quarterly/semi-annual/bullet repayments between 2009 to 2013. These include subsidiaries' bank loans denominated in Indonesian Rupiah and Malaysian Ringgit.

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

The interest rates and repayment periods vary in accordance with the type, purpose and security for the facilities granted under the above schemes. Nominal interest on the above loans and advances ranged from 1.8% to 6.9% (2007: 1.8% to 6.9%) per annum and are repayable between 2009 and 2011.

(d) The floating rate notes bear a nominal interest rate of 1.9% (2007: 3.3%) per annum and are repayable by bullet repayment in 2009.

(e) The fixed rate notes bear nominal interest rates ranging from 3.2% to 4.4% (2007: 3.2% to 4.4%) per annum and are repayable by bullet repayment in 2009. There was a repayment of notes amounting to $56 million during the year.

## 22 INTEREST-BEARING BORROWINGS *(cont'd)*

***Effective interest rates and repricing analysis:***

| | Weighted average effective interest rate % | Floating rate $'000 | Fixed interest rate maturing within 1 year $'000 | Fixed interest rate maturing in 1 to 5 years $'000 | Fixed interest rate maturing after 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2008** | | | | | | |
| Unsecured short-term bank loans | 4.8 | 56,357 | 12,015 | – | – | 68,372 |
| Unsecured long-term bank loans | 3.0 | 49,116 | – | – | – | 49,116 |
| Unsecured SPRING and IES loans | 3.9 | – | 25,720 | 12,182 | – | 37,902 |
| Floating rate notes | 1.9 | 30,000 | – | – | – | 30,000 |
| Fixed rate notes | 4.4 | – | 15,000 | – | – | 15,000 |
| | | 135,473 | 52,735 | 12,182 | – | 200,390 |
| **2007** | | | | | | |
| Unsecured short-term bank loans | 5.2 | 87,374 | – | – | – | 87,374 |
| Unsecured long-term bank loans | 5.9 | 11,582 | – | – | – | 11,582 |
| Unsecured SPRING and IES loans | 3.9 | – | 40,862 | 23,261 | 163 | 64,286 |
| Floating rate notes | 3.3 | 30,000 | – | – | – | 30,000 |
| Fixed rate notes | 3.7 | – | 56,000 | 15,000 | – | 71,000 |
| | | 128,956 | 96,862 | 38,261 | 163 | 264,242 |

## 22 INTEREST-BEARING BORROWINGS *(cont'd)*

***Effective interest rates and repricing analysis:*** *(cont'd)*

| | Weighted average effective interest rate % | Floating rate $'000 | Fixed interest rate maturing within 1 year $'000 | in 1 to 5 years $'000 | after 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **2008** | | | | | | |
| Unsecured short-term bank loans | 4.7 | 55,922 | – | – | – | 55,922 |
| Unsecured long-term bank loans | 2.9 | 48,654 | – | – | – | 48,654 |
| Unsecured SPRING and IES loans | 3.9 | – | 25,720 | 12,182 | – | 37,902 |
| Floating rate notes | 1.9 | 30,000 | – | – | – | 30,000 |
| Fixed rate notes | 4.4 | – | 15,000 | – | – | 15,000 |
| | | 134,576 | 40,720 | 12,182 | – | 187,478 |
| **2007** | | | | | | |
| Unsecured short-term bank loans | 5.1 | 73,809 | – | – | – | 73,809 |
| Unsecured long-term bank loans | 5.9 | 11,582 | – | – | – | 11,582 |
| Unsecured SPRING and IES loans | 3.9 | – | 40,862 | 23,261 | 163 | 64,286 |
| Floating rate notes | 3.3 | 30,000 | – | – | – | 30,000 |
| Fixed rate notes | 3.7 | – | 56,000 | 15,000 | – | 71,000 |
| | | 115,391 | 96,862 | 38,261 | 163 | 250,677 |

## 23 TRADE AND OTHER PAYABLES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2008<br>$'000 | 2007<br>$'000 | 2008<br>$'000 | 2007<br>$'000 |
| Factoring amounts owing to clients | | 13,832 | 20,068 | 13,832 | 20,068 |
| Trade payables | | 304 | 223 | 285 | 211 |
| Amounts and loans due to subsidiary | | | | | |
| – non-trade | | – | – | 7 | 15 |
| – interest-bearing loans | | – | – | 7,464 | – |
| Rental deposit | | – | 1 | – | – |
| Deposits relating to investments | | – | 7,857 | – | – |
| Other payables and accruals | 24 | 11,162 | 10,424 | 6,741 | 6,042 |
| | | 25,298 | 38,573 | 28,329 | 26,336 |

**Group**

For factoring amounts owing to clients, please refer to Note 15 to the financial statements. Trade payables, other payables and accruals are non interest-bearing financial liabilities.

**Company**

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

## 23 TRADE AND OTHER PAYABLES *(cont'd)*

***Effective interest rates and repricing analysis:***

| | Weighted average effective interest rate % | Floating rate $'000 | Non interest-earning $'000 | Total $'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **2008** | | | | |
| Amounts and loans owing to subsidiary | 3.4 | 7,464 | 7 | 7,471 |
| Trade payables | – | – | 285 | 285 |
| Other payables and accruals | – | 2,485 | 4,256 | 6,741 |
| | | 9,949 | 4,548 | 14,497 |
| **2007** | | | | |
| Amounts and loans owing to subsidiary | – | – | 15 | 15 |
| Trade payables | – | – | 211 | 211 |
| Other payables and accruals | – | – | 6,042 | 6,042 |
| | | – | 6,268 | 6,268 |

## 24 OTHER PAYABLES AND ACCRUALS

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| Accrued operating expenses | | 6,618 | 6,633 | 2,692 | 2,604 |
| Deferred income | | 295 | 115 | 293 | 115 |
| Clients' security deposits | | 2,877 | 2,278 | 2,485 | 1,982 |
| Accrued interest payable | | 1,372 | 1,398 | 1,271 | 1,341 |
| | 23 | 11,162 | 10,424 | 6,741 | 6,042 |

## 25 INSURANCE PAYABLE

| | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|
| Payables arising from insurance contracts | 2,127 | 3,017 |
| Reinsurance contract payables | 1,833 | 4,287 |
| | 3,960 | 7,304 |

## 26 INTEREST INCOME

| | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|
| Associates | 7 | 1 |
| Third parties | 20,474 | 23,948 |
| | 20,481 | 23,949 |

## 27 INTEREST EXPENSE

| | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|
| Banks | 9,405 | 10,714 |

## 28 INCOME STATEMENT OF INSURANCE SUBSIDIARY – ECICS LIMITED

| | Note | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Gross written premiums | | 11,927 | 15,298 |
| Change in gross provision for unexpired risks | 12 | (3,583) | (2,848) |
| Gross earned premium revenue | | 8,344 | 12,450 |
| Written premiums ceded to reinsurers | | (7,194) | (9,115) |
| Reinsurers' share of change in the provision for unexpired risks | 12 | 2,668 | 3,027 |
| Reinsured premium expenses | | (4,526) | (6,088) |
| **Net earned premium revenue** | | 3,818 | 6,362 |
| **Other revenue** | | | |
| Commission income | | 2,186 | 2,616 |
| Investment income | | 20 | 3,898 |
| Other operating income | | 37 | 84 |
| | | 2,243 | 6,598 |
| **Net income before claims and expenses** | | 6,061 | 12,960 |
| **Claims and expenses** | | | |
| Change in provision for insurance claims | | 3,731 | (55) |
| Reinsurers' share of change in provision for insurance claims | | 456 | 132 |
| Gross claims paid | 12 | (3,125) | (3,896) |
| Reinsurers' share of claims recovered | 12 | 85 | 1,738 |
| **Net claims reversal/(incurred)** | | 1,147 | (2,081) |
| Commission expenses | | (968) | (992) |
| Investment expenses | | (2) | (298) |
| Distribution expenses | | (195) | (221) |
| Administration expenses | | (1,139) | (1,208) |
| Staff costs | | (1,486) | (2,357) |
| (Allowance made)/reversal of insurance and other receivables | | (109) | 404 |
| **Total claims and expenses** | | (2,752) | (6,753) |
| **Net profit before tax for the year** | | 3,309 | 6,207 |

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

## 29 FEE AND COMMISSION INCOME

| | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|
| Fee income | 4,226 | 5,036 |
| Underwriting commission income | 2,186 | 2,616 |
| | 6,412 | 7,652 |

## 30 INVESTMENT INCOME

| | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|
| Exchange loss | (156) | (255) |
| Dividend income | 689 | 395 |
| Fee income | 67 | – |
| Gain on disposal of equity securities | 2,014 | 6,306 |
| Remaining proceeds from disposal of an investment in prior year | 512 | – |
| Net change in fair value of financial assets through profit or loss | | |
| – held-for-trading | (184) | (2,039) |
| – designated as fair value through profit or loss | (811) | 2,341 |
| Investment income | | |
| – bonds | 1,026 | 1,047 |
| – unquoted available-for-sale investment | 73 | – |
| Interest income | | |
| – fixed deposits | 403 | 43 |
| – held-to-maturity floating rate notes | – | 67 |
| Amortisation of held-to-maturity debt securities | (72) | (102) |
| Fees paid to fund manager | (2) | (298) |
| | 3,559 | 7,505 |

## 31 OTHER INCOME

| | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|
| Write back of provision for contingent liability | **907** | – |
| Recoveries – loans and advances & receivables | **250** | 284 |
| Others | **156** | 179 |
| | **1,313** | 463 |

## 32 ALLOWANCES FOR/(REVERSAL OF) LOAN LOSSES AND IMPAIRMENT OF INVESTMENTS

| | Note | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|---|
| Trade and other receivables | | | |
| – loans, advances , hire purchase, leasing and factoring receivables (net) | 8, 15 | **3,659** | 5,982 |
| – insurance and other receivables | 13 | **108** | (419) |
| – non-trade receivables | 16 | **538** | 191 |
| – bad debts written off | | **82** | – |
| Equity and debt securities available-for-sale | | | |
| – quoted | | **1** | – |
| – unquoted | | **1,838** | 369 |
| | | **6,226** | 6,123 |

## 33 PROFIT BEFORE INCOME TAX

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

| | Note | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|---|
| Amortisation of intangible assets | 4 | 194 | 174 |
| Depreciation of property, plant and equipment | 3 | 882 | 864 |
| Property, plant and equipment written off | 3 | 1 | 4 |
| Exchange gain, (net) | | (44) | (59) |
| Net change in fair value of derivatives through profit or loss | | (122) | 159 |
| Non-audit fees paid to auditors of the Company | | 46 | 95 |
| Directors' fees | | 328 | 306 |
| Fees paid to corporations in which the directors have interests | | 18 | 500 |
| Contributions to defined contribution plans included in staff costs | | 693 | 711 |
| Bad and doubtful debts written off (trade) | | – | 16 |
| Financial expense | | 138 | 182 |

## 34 TAX CREDIT

| | Note | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|---|
| **Current tax (expense)/credit** | | | |
| Current year | | (1,747) | (1,634) |
| Income tax refund | | 109 | 827 |
| Overprovided in prior years | | 1,096 | 3,169 |
| | | (542) | 2,362 |
| **Deferred tax credit/(expense)** | | | |
| Movements in temporary differences | | 700 | (308) |
| Underprovided in prior years | | – | (1,875) |
| | 10 | 700 | (2,183) |
| | | 158 | 179 |

## 34 TAX CREDIT *(cont'd)*

***Reconciliation of effective tax rate***

| | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|
| Profit before income tax | 7,857 | 12,677 |
| Income tax using Singapore tax rates of 18% (2007: 18%) | (1,414) | (2,282) |
| Income subject to concessionary rate of 10% | 11 | 26 |
| Effect of different tax rates in other countries | (37) | 21 |
| Effect of change in tax rate | – | (172) |
| Expenses not deductible for tax purposes | (249) | (168) |
| Tax exempt revenues | 207 | 102 |
| Income not subject to tax | 74 | 58 |
| Unrecognised movements in deferred tax | 361 | 473 |
| Income tax refund | 109 | 827 |
| Overprovided in prior years | 1,096 | 1,294 |
| | 158 | 179 |

Pursuant to Section 43C of the Singapore Income Tax Act, Chapter 134, income from offshore insurance business is subject to tax at the concessionary rate of 10% instead of the standard rate of 18%.

## 35 EARNINGS PER SHARE

| | Group 2008 $'000 | Group 2007 $'000 |
|---|---|---|
| Basic earnings per share is based on: | | |
| Net profit attributable to ordinary shareholders | 8,015 | 12,856 |

## 35 EARNINGS PER SHARE *(cont'd)*

| | Group 2008 No. of shares '000 | Group 2007 No. of shares '000 |
|---|---|---|
| Issued ordinary shares at beginning of the year | **124,288** | 103,495 |
| Effect of rights issue | **–** | 15,485 |
| Effect of share options exercised | **–** | 59 |
| Weighted average number of ordinary shares at end of the year | **124,288** | 119,039 |

**Diluted earnings per share**

| | | |
|---|---|---|
| Diluted earnings per share is based on: | | |
| Net profit attributable to ordinary shareholders | **8,015** | 12,856 |

For the purpose of calculating the diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect arising from the dilutive share options, with the potential ordinary shares weighted for the period outstanding.

The effect of the exercise of share options on the weighted average number of ordinary shares in issue is as follows:

| | Group 2008 No. of shares '000 | Group 2007 No. of shares '000 |
|---|---|---|
| Weighted average number of: | | |
| Ordinary shares used in the calculation of Basic earnings per share | **124,288** | 119,039 |
| Potential ordinary shares issuable under share options | **3** | 18 |
| Weighted average number of ordinary issued and potential shares assuming full conversion | **124,291** | 119,057 |

## 36 CONTINGENT LIABILITIES AND COMMITMENT

***Contingent liabilities***

(a) As at 31 December 2008, the Group and the Company have outstanding standby letters of credit issued on behalf of customers as follows:

| | Group and Company | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| Letters of credit | **6,349** | 7,449 |

(b) At the Company level, the Company has guaranteed utilised borrowings of subsidiaries and associate amounting to $24,585,695 (2007: $26,708,560).

***Commitment***

(a) At 31 December 2008, the Group has commitments for future minimum lease payments under non-cancellable operating leases as follows:

| | Group | |
|---|---|---|
| | **2008** | **2007** |
| | **$'000** | **$'000** |
| Within 1 year | **112** | 109 |
| After 1 year but within 5 years | **24** | 120 |
| | **136** | 229 |

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

## 37 SIGNIFICANT RELATED PARTIES TRANSACTIONS

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

***Key management personnel compensation***

Key management personnel refers to Executive Director, Senior Management and CEO or General Manager of the Group's overseas subsidiaries, who have the authority and responsibility for planning, directing and controlling the activities of the Group and the Company.

The key management personnel compensation of the Group comprises mainly short-term employee benefits (remuneration) amounting to $2,437,885 (2007: $2,144,110).

Remuneration includes salary, allowances, bonus (which includes Annual Wage Supplement and performance bonus), employer CPF and other benefits.

***Other related party transactions***

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

| | Group | |
|---|---|---|
| | 2008 | 2007 |
| | $'000 | $'000 |
| **Affiliated corporations** | | |
| Professional and brokerage fees incurred | 1 | 98 |
| Software development fees incurred | 2 | 4 |
| Fund management fees incurred | 24 | 398 |
| Commission received | (26) | (18) |
| Interest received | (150) | (170) |
| | (149) | 312 |
| **Director of company** | | |
| Professional Fees | 4 | 4 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT

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

***Credit risk***

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

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

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

- The Credit Committee, comprising executive director and senior management staff assess, review and make decisions on credit risks of the Group within the authority limits imposed by the Board;
- The Credit Risk Management Department independently assess the creditworthiness and risk profile of the obligors and formulate credit policies and procedures for the Group;
- The Client Audit Unit conducts audits on new factoring clients before account activation and for existing ones, on a periodic basis;

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

***Credit risk*** *(cont'd)*

- Daily monitoring of accounts is handled by the Business Development Teams together with Operations and Credit Risk Management Departments;
- The Internal Audit provides independent assurance to senior management and the Audit Committee concerning compliance with credit processes, policies and the adequacy of internal controls; and
- Established limits and actual levels of exposure are regularly reviewed and reported to the Board of Directors on a periodic basis.

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

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

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

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

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

| | Note | Group 2008 $'000 | Group 2007 $'000 | Company 2008 $'000 | Company 2007 $'000 |
|---|---|---|---|---|---|
| Collectively assessed | | | | | |
| Neither past due nor impaired (i) | | **174,429** | 196,947 | **143,020** | 176,219 |
| Past due but not impaired (ii) | | **11,863** | 9,685 | **9,026** | 8,762 |
| Gross amount | | **186,292** | 206,632 | **152,046** | 184,981 |
| Collective impairment | | **(2,147)** | (2,831) | **(1,775)** | (2,549) |
| Carrying amount | | **184,145** | 203,801 | **150,271** | 182,432 |
| Individually impaired (iii) | | **15,454** | 12,999 | **14,873** | 12,072 |
| Allowance for impairment | | **(9,404)** | (7,809) | **(9,238)** | (7,622) |
| Carrying amount | | **6,050** | 5,190 | **5,635** | 4,450 |
| Total carrying amount | 8 | **190,195** | 208,991 | **155,906** | 186,882 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Grade 1 – 5 (gross amount) | **174,429** | 196,947 | **143,020** | 176,219 |
| *includes accounts with renegotiated terms* | ***17,737*** | *11,469* | ***15,733*** | *9,520* |
| *include accounts that are unsecured* | ***29,376*** | *45,466* | ***27,522*** | *37,991* |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Grade 6 – 9 (gross amount) | **11,863** | 9,685 | **9,026** | 8,762 |
| Past due comprises: | | | | |
| 1 – 30 days | **2,647** | 1,656 | **1,244** | 733 |
| 31 – 60 days | **1,458** | 16 | **24** | 16 |
| 61 – 90 days | **11** | 10 | **11** | 10 |
| 91 – 180 days | **146** | 2 | **146** | 2 |
| More than 180 days | **7,601** | 8,001 | **7,601** | 8,001 |
| Gross amount | **11,863** | 9,685 | **9,026** | 8,762 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Grade 6 | – | 35 | – | 35 |
| Grade 7 | 6,672 | 1,637 | 6,091 | 1,056 |
| Grade 8 | 2,737 | 4,407 | 2,737 | 4,407 |
| Grade 9 | 6,045 | 6,920 | 6,045 | 6,574 |
| Gross amount | 15,454 | 12,999 | 14,873 | 12,072 |
| Allowance for impairment | (9,404) | (7,809) | (9,238) | (7,622) |
| Carrying amount | 6,050 | 5,190 | 5,635 | 4,450 |

*(b) Factoring receivables*

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

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

#### *(b) Factoring receivables (cont'd)*

The breakdown by type of factoring risk is as follows:

| | | Factoring receivables | | | |
|---|---|---|---|---|---|
| | | Group | | Company | |
| | Note | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Carrying amount | 15 | **140,379** | 198,292 | **124,673** | 179,510 |
| Recourse | | **116,341** | 158,152 | **100,635** | 139,708 |
| Non-recourse | | **24,038** | 40,140 | **24,038** | 39,802 |
| | | **140,379** | 198,292 | **124,673** | 179,510 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| **Past due but not impaired receivables** | | | | |
| More than 180 days | **1,597** | 13,120 | **1,236** | 12,592 |

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

*(c) Insurance receivables*

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

| | Group | |
|---|---|---|
| | 2008 | 2007 |
| | $'000 | $'000 |
| **Insurance receivables** | | |
| 1 – 180 days | 9 | 18 |
| More than 180 days | 46 | 34 |
| | 55 | 52 |

For insurance receivables to be classified as past due but not impaired, contractual payments in arrears must be more than the contractual dates.

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

*(a) Loan classification*

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

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

*(b) Loans with renegotiated terms*

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

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

(i) Allowances for loans and receivables

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

(ii) Allowances for investments

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

*(d) Write-off policy*

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

*(e) Upgrading of non-performing loan*

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

*(f) Impairment losses*

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Gross $'000 | Net $'000 | Gross $'000 | Net $'000 |
| **Group** | | | | |
| **Loans, advances, hire purchase and leasing receivables** | | | | |
| Grade 6 | – | – | 35 | 18 |
| Grade 7 | 6,672 | 3,770 | 1,637 | 1,189 |
| Grade 8 | 2,737 | 1,698 | 4,407 | 2,677 |
| Grade 9 | 6,045 | 582 | 6,920 | 1,306 |
| Total | 15,454 | 6,050 | 12,999 | 5,190 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Gross $'000 | Net $'000 | Gross $'000 | Net $'000 |
| **Company** | | | | |
| **Loans, advances, hire purchase and leasing receivables** | | | | |
| Grade 6 | – | – | 35 | 18 |
| Grade 7 | 6,091 | 3,355 | 1,056 | 774 |
| Grade 8 | 2,737 | 1,698 | 4,407 | 2,677 |
| Grade 9 | 6,045 | 582 | 6,574 | 981 |
| Total | 14,873 | 5,635 | 12,072 | 4,450 |

### *(III) Collateral*

The Group holds collateral against loans and advances to clients in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of the fair value are based on the value of collateral at the time of lending and generally are not updated except when the loan is individually assessed as impaired. Generally, collateral is not held against the Group's investment securities, and no such collateral was held at 31 December 2008 or 2007.

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | Loans, advances, hire purchase and leasing receivables | | Loans, advances, hire purchase and leasing receivables | |
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| **Against individually impaired** | | | | |
| Accounts receivables | – | 913 | – | 913 |
| Properties | 1,604 | 1,572 | 795 | 650 |
| Equipment | 1,558 | – | 1,558 | – |
| Motor vehicles | 122 | 533 | 122 | 533 |
| Vessels | 53 | – | 53 | – |
| Subtotal | 3,337 | 3,018 | 2,528 | 2,096 |
| **Against past due but not impaired** | | | | |
| Accounts receivable | 442 | – | – | – |
| Fixed/cash deposits | 50 | – | 50 | – |
| Properties | 13,833 | 8,000 | 13,833 | 8,000 |
| Equipment | 6,343 | 1,743 | 2,507 | 672 |
| Subtotal | 20,668 | 9,743 | 16,390 | 8,672 |
| **Against neither past due nor impaired** | | | | |
| Accounts receivables | 10,931 | – | – | – |
| Fixed/cash deposits | 3,814 | 2,433 | 3,814 | 2,433 |
| Properties | 48,690 | 9,813 | 41,490 | 7,615 |
| Equipment | 139,212 | 153,351 | 106,126 | 143,108 |
| Shares | 42,991 | 118,440 | 42,046 | 113,311 |
| Motor vehicles | 2,916 | – | 2,916 | – |
| Vessels | 19,423 | 649 | 19,423 | 649 |
| Irrevocable bankers' guarantees | 1,750 | – | – | – |
| Subtotal | 269,727 | 284,686 | 215,815 | 267,116 |
| Total | 293,732 | 297,447 | 234,733 | 277,884 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

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

| | Loans, advances, hire purchase and leasing receivables | | Investments | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | |
| Carrying amount | **190,195** | 208,991 | **48,158** | 70,317 |
| **Concentration by sector** | | | | |
| Manufacturing | **98,381** | 90,148 | **4,500** | 17,553 |
| Services | **54,382** | 56,938 | **14,229** | 10,433 |
| Holding and investment companies | **21,010** | 42,623 | **5,484** | 11,981 |
| Property | **8,435** | 16,641 | **15,479** | 24,194 |
| Multi-Industry | **–** | – | **4,953** | – |
| Others | **7,987** | 2,641 | **3,513** | 6,156 |
| Total | **190,195** | 208,991 | **48,158** | 70,317 |
| **Company** | | | | |
| Carrying amount | **155,906** | 186,882 | **4,652** | 4,917 |
| **Concentration by sector** | | | | |
| Manufacturing | **79,029** | 83,435 | **–** | – |
| Services | **39,445** | 51,219 | **4,652** | 4,917 |
| Holding and investment companies | **21,010** | 34,728 | **–** | – |
| Property | **8,435** | 14,859 | **–** | – |
| Others | **7,987** | 2,641 | **–** | – |
| Total | **155,906** | 186,882 | **4,652** | 4,917 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

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

| | Factoring receivables | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Carrying amount | **140,379** | 198,292 | **124,673** | 179,510 |
| **Concentration by sector** | | | | |
| Manufacturing | **74,973** | 101,125 | **71,306** | 96,066 |
| Services | **49,720** | 76,690 | **37,681** | 62,967 |
| Holding and investment companies | **781** | 1,870 | **781** | 1,870 |
| Property | **9,545** | 387 | **9,545** | 387 |
| Shipping | **2,969** | 4,501 | **2,969** | 4,501 |
| Others | **2,391** | 13,719 | **2,391** | 13,719 |
| Total | **140,379** | 198,292 | **124,673** | 179,510 |

The maximum exposure to credit risk of financial assets at the reporting date by geographical region is disclosed in Note 40(b).

***Interest rate risk***

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

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

***Interest rate risk*** *(cont'd)*

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

*Fair value sensitivity analysis for fixed rate instruments*

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

*Sensitivity analysis for variable rate instruments*

As at 31 December 2008, it is estimated that a general increase of 100bp in interest rates would increase the Group's profit after tax by approximately $216,000 and the Company's profit after tax by approximately $205,000 (2007: Group: $427,000; Company: $495,000). A decrease in 100bp in interest rates would have an equal opposite effect. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

***Liquidity risk***

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

***Liquidity risk** (cont'd)*

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

| | Carrying amount $'000 | Contractual cash flows $'000 | 6 months or less $'000 | 6-12 months $'000 | 1-2 years $'000 | 2-5 years $'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2008** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | 25,298 | 25,298 | 25,156 | 142 | – | – |
| Insurance payables | 3,960 | 3,960 | 3,960 | – | – | – |
| Interest-bearing borrowings | 200,390 | 208,199 | 102,604 | 45,388 | 23,250 | 36,957 |
| Letters of credit | 6,349 | 6,349 | 6,349 | – | – | – |
| **Derivative financial liabilities** | | | | | | |
| Forward exchange contracts | (117) | | | | | |
| – inflow | – | 21,825 | 21,825 | – | – | – |
| – outflow | – | (21,708) | (21,708) | – | – | – |
| | 235,880 | 243,923 | 138,186 | 45,530 | 23,250 | 36,957 |
| **2007** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | 38,573 | 38,573 | 38,573 | – | – | – |
| Insurance payables | 7,304 | 7,304 | 7,304 | – | – | – |
| Interest-bearing borrowings and bank overdrafts | 264,937 | 282,517 | 98,638 | 96,808 | 64,869 | 22,202 |
| Letters of credit | 7,449 | 7,449 | 7,449 | – | – | – |
| **Derivative financial liabilities** | | | | | | |
| Forward exchange contracts | | | | | | |
| – outflow | 7 | (7) | (7) | – | – | – |
| Interest rate caps and floors | | | | | | |
| – inflow | (2) | 2 | 2 | – | – | – |
| | 318,268 | 335,838 | 151,959 | 96,808 | 64,869 | 22,202 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

***Liquidity risk*** *(cont'd)*

| | Carrying amount $'000 | Contractual cash flows $'000 | 6 months or less $'000 | 6-12 months $'000 | 1-2 years $'000 | 2-5 years $'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **2008** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | 28,329 | 28,329 | 28,329 | – | – | – |
| Interest-bearing borrowings | 187,478 | 195,040 | 90,194 | 45,145 | 22,811 | 36,890 |
| Letters of credit | 6,349 | 6,349 | 6,349 | – | – | – |
| **Derivative financial liabilities** | | | | | | |
| Forward exchange contracts | (117) | | | | | |
| – inflow | – | 21,825 | 21,825 | – | – | – |
| – outflow | – | (21,708) | (21,708) | – | – | – |
| | 222,039 | 229,835 | 124,989 | 45,145 | 22,811 | 36,890 |
| **2007** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | 26,336 | 26,336 | 26,336 | – | – | – |
| Interest-bearing borrowings and bank overdrafts | 251,372 | 268,812 | 84,933 | 96,808 | 64,869 | 22,202 |
| Letters of credit | 7,449 | 7,449 | 7,449 | – | – | – |
| **Derivative financial liabilities** | | | | | | |
| Forward exchange contracts | | | | | | |
| – outflow | 7 | (7) | (7) | – | – | – |
| Interest rate caps and floors | | | | | | |
| – inflow | (2) | 2 | 2 | – | – | – |
| | 285,162 | 302,592 | 118,713 | 96,808 | 64,869 | 22,202 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

***Currency risk***

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

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

The Group is exposed to foreign currency risk on investments, loans, advances and factoring receivables and borrowings that are denominated in a currency other than Singapore dollars. The currencies giving rise to this risk are primarily USD, THB, IDR, RM and Sterling Pound ("GBP"). If necessary, the Group may use derivative financial instruments to hedge its foreign currency risk.

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

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

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

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

| | USD $'000 | THB $'000 | IDR $'000 | RM $'000 | GBP $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2008** | | | | | |
| Loans & advances, trade and other receivables | 61,045 | – | 94 | – | – |
| Other investments | 3,727 | 15,390 | – | – | 2,376 |
| Cash and cash equivalents | 516 | 4 | – | – | 15 |
| Other financial assets | 539 | – | – | – | – |
| Trade and other payables | (711) | (4) | – | – | – |
| Interest-bearing borrowings | (42,253) | (207) | – | – | – |
| Currency exposure | 22,863 | 15,183 | 94 | – | 2,391 |
| Currency forward contracts | (21,732) | – | – | – | – |
| **Net currency exposure** | 1,131 | 15,183 | 94 | – | 2,391 |
| **2007** | | | | | |
| Loans & advances, trade and other receivables | 74,860 | – | – | – | 6 |
| Other investments | 5,597 | 14,427 | – | 6,392 | 6,696 |
| Cash and cash equivalents | 4,191 | 5 | – | 592 | 190 |
| Other financial assets | 395 | – | – | – | – |
| Trade and other payables | (11,816) | – | – | (592) | (56) |
| Interest-bearing borrowings | (68,978) | – | – | – | – |
| Other financial liabilities | (172) | – | – | – | – |
| **Net currency exposure** | 4,077 | 14,432 | – | 6,392 | 6,836 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

| | USD $'000 | THB $'000 | IDR $'000 | RM $'000 | GBP $'000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| 2008 | | | | | |
| Loans & advances, trade and other receivables | 65,148 | – | 631 | 32 | – |
| Other investments | – | 11,958 | 5,101 | 2,154 | 41 |
| Cash and cash equivalents | 245 | 4 | – | – | 15 |
| Trade and other payables | (423) | (4) | – | – | – |
| Interest-bearing borrowings | (42,253) | (207) | – | – | – |
| Currency exposure | 22,717 | 11,751 | 5,732 | 2,186 | 56 |
| Currency forward contracts | (21,732) | – | – | – | – |
| **Net currency exposure** | 985 | 11,751 | 5,732 | 2,186 | 56 |
| 2007 | | | | | |
| Loans & advances, trade and other receivables | 80,375 | – | 631 | 32 | 5 |
| Other investments | – | 11,765 | 3,578 | 2,154 | 205 |
| Cash and cash equivalents | 55 | 5 | – | 592 | 190 |
| Trade and other payables | (11,777) | – | – | (592) | (56) |
| Interest-bearing borrowings | (68,978) | – | – | – | – |
| **Net currency exposure** | (325) | 11,770 | 4,209 | 2,186 | 344 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

*Sensitivity analysis*

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

| | Group | | Company | |
|---|---|---|---|---|
| | Equity<br>$'000 | Profit or loss<br>$'000 | Equity<br>$'000 | Profit or loss<br>$'000 |
| **31 December 2008** | | | | |
| USD | (91) | (18) | – | (81) |
| THB | (1,539) | 17 | (1,196) | 17 |
| IDR | – | (8) | (510) | (52) |
| RM | – | – | (215) | (3) |
| GBP | (234) | (5) | – | (5) |
| 31 December 2007 | | | | |
| USD | (525) | 96 | – | 27 |
| THB | (1,443) | – | (1,176) | – |
| IDR | – | – | (358) | (52) |
| RM | (32) | (498) | (226) | (3) |
| GBP | (649) | (28) | – | (28) |

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

***Equity risk***

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

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

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

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

*Sensitivity analysis – equity price risk*

The Group's equity securities held-for-trading and quoted available-for-sale investments are listed equity instruments. A 5 percent increase in the underlying equity prices at the reporting date would increase equity and profit or loss after tax by the following amount:

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Equity | 117 | 325 | – | – |
| Profit or loss | 41 | 264 | 2 | 8 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

*Sensitivity analysis - equity price risk (cont'd)*

A 5 percent decrease in the underlying equity prices at the reporting date would decrease equity and profit or loss after tax by the amounts shown above, on the basis that all other variables remain constant.

***Operational risk***

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

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

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

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

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

***Insurance contract risk***

*Underwriting risk*

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

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

*Pricing risk*

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

*Concentration risk*

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

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

*Reinsurance outwards*

The Group participates in reinsurance treaties to cede risks to its reinsurers, which are internationally established firms with established credit ratings and reviewed by the Board. Under the treaties, the Group undertakes to cede to its reinsurers between 50% to 70% of its total written premium as well as the same proportion of corresponding losses for 2008. Risks undertaken which do not fall within the treaty scope of cover are ceded to reinsurers on a facultative basis.

***Counterparty and concentration risk***

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

***Recognised financial assets***

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

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

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

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

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

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Group believes that the estimated total claims outstanding as at end of 2008 are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

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

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

Underwriting year:

- 2001 – 12 months ended 31 March 2001
- 2002 – 12 months ended 31 March 2002
- 2003 – 12 months ended 31 March 2003
- 2004 – 9 months ended 31 December 2004
- 2005 – 12 months ended 31 December 2005
- 2006 – 12 months ended 31 December 2006
- 2007 – 12 months ended 31 December 2007
- 2008 – 12 months ended 31 December 2008

Claims information for underwriting years 2001 to 2003 relates to the insurance and guarantee businesses of ECICS Credit Insurance Ltd ("ECIL") and ECICS Credit and Guarantee Company (Singapore) Ltd ("ECGC"), under which such businesses were acquired by the Group through the Company effective from 1 December 2003.

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

### (i) Analysis of claims development – gross basis

**Credit insurance business**
**Gross loss development tables as at 31 December 2008**
**Unit: $'000s**

| Estimate of cumulative claims<br>Underwriting year | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
|---|---|---|---|---|---|---|---|---|---|
| At end of underwriting year | | | 1,411 | 1,515 | 1,904 | 1,886 | 1,658 | 1,208 | |
| One year later | | 3,971 | 2,191 | 1,581 | 2,199 | 2,949 | 2,251 | | |
| Two years later | 1,004 | 6,153 | 1,966 | 1,250 | 2,278 | 1,853 | | | |
| Three years later | 848 | 5,957 | 1,877 | 1,375 | 2,380 | | | | |
| Four years later | 788 | 5,962 | 1,763 | 1,549 | | | | | |
| Five years later | 788 | 5,437 | 1,763 | | | | | | |
| Six years later | 788 | 4,577 | | | | | | | |
| Seven years later | 788 | | | | | | | | |
| Current estimate of ultimate claims | 788 | 4,577 | 1,763 | 1,549 | 2,380 | 1,853 | 2,251 | 1,208 | 16,369 |
| Cumulative payments | 732 | 4,548 | 1,674 | 1,316 | 1,878 | 764 | 28 | – | 10,940 |
| Gross outstanding claim liability | 56 | 29 | 89 | 233 | 502 | 1,089 | 2,223 | 1,208 | 5,429 |
| Unallocated loss adjustment expenses | 4 | 2 | 6 | 32 | 38 | 79 | 153 | 83 | 397 |
| Effect of discount | 1 | (66) | 2 | 4 | 9 | 19 | 38 | 20 | 27 |
| Best estimate of outstanding claim liability | 59 | 97 | 93 | 261 | 531 | 1,149 | 2,338 | 1,271 | 5,799 |
| Provision for adverse deviation | | | | | | | | | 870 |
| Outstanding claim liability in accounts | | | | | | | | | 6,669 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

### (i) Analysis of claims development – gross basis *(cont'd)*

**Bond and guarantee insurance business**
**Gross loss development tables as at 31 December 2008**
**Unit: $'000s**

| Estimate of cumulative claims<br>Underwriting year | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
|---|---|---|---|---|---|---|---|---|---|
| At end of underwriting year | | | – | – | – | 28 | 10 | – | |
| One year later | | 4,506 | 199 | 110 | 313 | 605 | 630 | | |
| Two years later | 3,726 | 5,956 | 199 | 110 | 2,488 | 962 | | | |
| Three years later | 4,108 | 5,956 | 199 | 110 | 2,668 | | | | |
| Four years later | 4,138 | 7,120 | 199 | 310 | | | | | |
| Five years later | 4,138 | 7,120 | 199 | | | | | | |
| Six years later | 4,138 | 7,120 | | | | | | | |
| Seven years later | 4,138 | | | | | | | | |
| Current estimate of ultimate claims | 4,138 | 7,120 | 199 | 310 | 2,668 | 962 | 630 | – | 16,027 |
| Cumulative payments | 4,138 | 7,120 | 199 | 310 | 2,668 | 962 | 630 | – | 16,027 |
| Gross outstanding claim liability | – | – | – | – | – | – | – | – | – |
| Unallocated loss adjustment expenses | – | – | – | – | – | – | – | – | – |
| Effect of discount | – | – | – | – | – | – | – | – | – |
| Best estimate of outstanding claim liability | – | – | – | – | – | – | – | – | – |
| Provision for adverse deviation | | | | | | | | | – |
| Outstanding claim liability in accounts | | | | | | | | | – |
| **Total** | | | | | | | | | 6,669 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

### (ii) Analysis of claims development – net basis

**Credit insurance business**
**Net loss development tables as at 31 December 2008**
**Unit: $'000s**

| Estimate of cumulative claims<br>Underwriting year | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
|---|---|---|---|---|---|---|---|---|---|
| At end of underwriting year | | | 635 | 665 | 918 | 943 | 906 | 604 | |
| One year later | | 1,771 | 997 | 860 | 1,100 | 1,591 | 1,127 | | |
| Two years later | 447 | 5,127 | 892 | 683 | 1,186 | 925 | | | |
| Three years later | 376 | 4,983 | 1,060 | 885 | 1,273 | | | | |
| Four years later | 349 | 4,966 | 949 | 968 | | | | | |
| Five years later | 349 | 4,438 | 948 | | | | | | |
| Six years later | 349 | 3,579 | | | | | | | |
| Seven years later | 349 | | | | | | | | |
| Current estimate of ultimate claims | 349 | 3,579 | 948 | 968 | 1,273 | 925 | 1,127 | 604 | 9,773 |
| Cumulative payments | 324 | 3,566 | 908 | 740 | 996 | 355 | 16 | – | 6,905 |
| Net estimate of outstanding claim liability | 25 | 13 | 40 | 228 | 277 | 570 | 1,111 | 604 | 2,868 |
| Unallocated loss adjustment expenses | 4 | 2 | 6 | 32 | 38 | 79 | 154 | 83 | 398 |
| Effect of discount | – | – | – | 1 | 1 | 3 | 6 | 3 | 14 |
| Best estimate of outstanding claim liability | 29 | 15 | 46 | 259 | 314 | 646 | 1,259 | 684 | 3,252 |
| Provision for adverse deviation | | | | | | | | | 487 |
| Outstanding claim liability in accounts | | | | | | | | | 3,739 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

### (ii) Analysis of claims development – net basis *(cont'd)*

**Bond and guarantee insurance business**
**Net loss development tables as at 31 December 2008**
**Unit: $'000s**

| **Estimate of cumulative claims Underwriting year** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| At end of underwriting year | | | – | – | – | – | 3 | – | |
| One year later | | 751 | 2 | – | – | 173 | 16 | | |
| Two years later | 375 | 2,101 | 2 | – | 1,137 | 170 | | | |
| Three years later | 466 | 2,101 | 2 | – | 1,172 | | | | |
| Four years later | 473 | 2,334 | 2 | 28 | | | | | |
| Five years later | 473 | 2,334 | 2 | | | | | | |
| Six years later | 473 | 2,334 | | | | | | | |
| Seven years later | 473 | | | | | | | | |
| Current estimate of ultimate claims | 473 | 2,334 | 2 | 28 | 1,172 | 170 | 16 | – | 4,195 |
| Cumulative payments | 473 | 2,334 | 2 | 28 | 1,172 | 170 | 16 | – | 4,195 |
| Net estimate of outstanding claim liability | – | – | – | – | – | – | – | – | – |
| Unallocated loss adjustment expenses | – | – | – | – | – | – | – | – | – |
| Effect of discount | – | – | – | – | – | – | – | – | – |
| Best estimate of outstanding claim liability | – | – | – | – | – | – | – | – | – |
| Provision for adverse deviation | | | | | | | | | – |
| Outstanding claim liability in accounts | | | | | | | | | – |
| **Total** | | | | | | | | | 3,739 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

***Estimation of fair value***

*Investments in equity and debt securities*

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

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

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

*Other financial assets and liabilities*

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

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

*Interest rates used in determining fair values*

The interest rates used to discount estimated cash flows, at 31 December, are as follows:

| | **2008** | 2007 |
|---|---|---|
| | **%** | % |
| Loans, advances, hire purchase, and leasing receivables | **7.9 – 12.5** | 5.8 – 10.9 |
| Short-term loans (unsecured) | **3.0 – 11.1** | 3.5 – 4.2 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

***Summary***

The aggregate net fair values of recognised financial assets and liabilities which are not carried at fair values in the balance sheets date at 31 December are represented in the following table:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Carrying value $'000 | Fair value $'000 | Carrying value $'000 | Fair value $'000 |
| **Group** | | | | |
| **Financial assets** | | | | |
| Loans, advances, hire purchase and leasing receivables | 190,195 | 189,912 | 208,991 | 208,136 |
| Held-to-maturity investments | 35,428 | 33,732 | 22,571 | 22,604 |
| | 225,623 | 223,644 | 231,562 | 230,740 |
| **Financial liabilities** | | | | |
| Interest-bearing borrowings (unsecured) | 200,390 | 200,390 | 264,242 | 264,300 |
| Net | 25,233 | 23,254 | (32,680) | (33,560) |
| Unrecognised loss | | 1,979 | | 880 |

## 38 FINANCIAL AND INSURANCE RISK MANAGEMENT *(cont'd)*

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Carrying value $'000 | Fair value $'000 | Carrying value $'000 | Fair value $'000 |
| **Company** | | | | |
| **Financial assets** | | | | |
| Loans, advances, hire purchase, and leasing receivables | 155,906 | 155,902 | 186,882 | 186,640 |
| **Financial liabilities** | | | | |
| Interest-bearing borrowings (unsecured) | 187,478 | 187,478 | 250,677 | 250,735 |
| Net | (31,572) | (31,576) | (63,795) | (64,095) |
| Unrecognised loss | | 4 | | 300 |

## 39 ACCOUNTING JUDGEMENTS AND ESTIMATES

Management has assessed the development, selection and disclosure of the critical accounting policies and estimates, and the application of these policies and estimates.

The following are critical accounting judgements or estimates made by the management in applying accounting policies:

***Critical accounting judgements***

*Impairment losses on loans, advances, hire purchase, leasing and receivables*

The Group reviews the loan portfolio to assess impairment on a regular basis. To determine whether there is an impairment loss, the Group makes judgements as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows of the loan portfolio. The evidence may include observable data indicating adverse changes in the payment status of the borrowers or local economic conditions that correlate with defaults in the loan portfolio. The methodology and assumptions used for estimating the amount and timing of cash flows are reviewed regularly to reduce any differences between estimated and actual loss experience.

## 39 ACCOUNTING JUDGEMENTS AND ESTIMATES *(cont'd)*

***Critical accounting judgements*** *(cont'd)*

*Held-to-maturity financial assets*

The Group has the intention and ability to hold the debt securities, which include quoted and unquoted corporate bonds to maturity. These securities will be redeemed upon maturity and will not be subject to disposal prior to maturity.

If the Group fails to hold these debt securities to maturity other than for specific circumstances explained in FRS 39, it will be required to classify the whole class as available-for-sale. The debt securities would therefore be measured at fair value and not amortised cost. If the class of held-to-maturity debt securities is tainted, its carrying amount would decrease by $1,696,118, with a corresponding entry in the fair value reserves in equity.

***Critical accounting estimates***

*Provisions for unexpired risks and insurance claims*

Provisions for unexpired risks and insurance claims as at 31 December 2008 have been assessed by the approved actuary (Watson Wyatt Insurance Consulting Pte Ltd), in accordance with local insurance regulatory requirements.

The description of the principal estimates and assumptions underlying the determination of provisions for unexpired risks and insurance claims and the impact of changes in these estimates and assumptions are discussed in the sensitivity analysis set out in sections I and II of this note.

The process of establishing the provision for insurance claims is described in section II of this note.

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

Users of these financial statements should take note of the following:

(a) The sensitivity analysis in sections I and II is based upon the assumptions set out in the actuarial report issued to the Group by the approved actuary for the financial year ended 31 December 2008. The sensitivity analysis is subject to the reliance that the approved actuary has placed on management and limitations described in the report;

## 39 ACCOUNTING JUDGEMENTS AND ESTIMATES *(cont'd)*

***Critical accounting estimates*** *(cont'd)*

*Provisions for unexpired risks and insurance claims (cont'd)*

(b) The estimates and assumptions discussed are independent of each other. However, in practice, a combination of adverse and favourable changes can occur; and

(c) The sensitivity results are not intended to capture all possible outcomes. Significantly more adverse or favourable results are possible.

**I. Provision for unexpired risks – sensitivity analysis**

The provision for unexpired risks is the higher of:

(a) The aggregate of the total best estimates of unexpired risk and the provision for adverse deviation ("PAD"); and

(b) Unearned premium reserves.

For short-term credit insurance policies, the provision for unexpired risks is based on the ultimate loss ratio for 2008 which is obtained from outstanding claim analysis. For bonds and guarantee insurance contracts, a simulation approach is used to project expected future losses. In the base scenario, the Group has assumed an average bond default rate of 1.75% (2007: 1.5%) applies.

The provision for unexpired risks includes a PAD which is intended to provide a 75% probability of adequacy for the provision for unexpired risks. The PAD assumption relied on the approved actuary's inputs. An allowance for future management expenses and claim handling costs is made.

Based on the current assumptions, the gross and net provisions for unexpired risks are as follows:

| | Net ($'000) | Gross ($'000) |
|---|---|---|
| **At 31 December 2008** | | |
| Estimated provision for unexpired risks under the base scenario | 7,848 | 34,951 |

## 39 ACCOUNTING JUDGEMENTS AND ESTIMATES *(cont'd)*

### I. Provision for unexpired risks – sensitivity analysis *(cont'd)*

***Probability of default for bonds and guarantees***

Probability of default for bonds and guarantees is computed based on historical claims experience of the Group. Under the base scenario, the Group has assumed that the bonds and guarantees have an average probability of default of 1.75%. If average probability of default rate of 2.25% or 1.25% is used, the provision will be modified as follows:

| | Net ($'000) | | Gross ($'000) | |
|---|---|---|---|---|
| | **High 2.25%** | **Low 1.25%** | **High 2.25%** | **Low 1.25%** |
| Provision for unexpired risks | 9,581 | 6,116 | 43,459 | 26,514 |

***Recovery rate for bonds and guarantees***

Recovery rates for bonds and guarantees are computed based on published recovery rates from S&P and Moody's. Under the base scenario, the Group has allowed for recovery rate of 35% of the bond or guarantee value if it is called. Using rates of 40% or 30%, the provision for unexpired risks would change as follows:

| | Net ($'000) | | Gross ($'000) | |
|---|---|---|---|---|
| | **High 30%** | **Low 40%** | **High 30%** | **Low 40%** |
| Provision for unexpired risks | 8,314 | 7,381 | N/A | N/A |

N/A: This sensitivity does not apply because the actuary has assumed no recovery under the gross basis.

## 39 ACCOUNTING JUDGEMENTS AND ESTIMATES *(cont'd)*

### I. Provision for unexpired risks – sensitivity analysis *(cont'd)*

***Claim handling expenses ("CHE")***

Allowance for CHE relates to the costs of administering outstanding claims until all claims are fully settled. CHE is computed based on 15% of expected future losses and maintenance expenses computed at 10% of the Group's unearned premium reserves for all classes of business. The effects of increasing and reducing CHE by 25% are presented below:

| | Net ($'000) | | Gross ($'000) | |
|---|---|---|---|---|
| | High +25% | Low –25% | High +25% | Low –25% |
| Provision for unexpired risks | 8,093 | 7,603 | 35,196 | 34,706 |

***Provision for adverse deviation***

The actuary has assumed premium PAD of 25% under the base scenario. If the assumed PAD is changed to 30% or 20%, the resulting provision will be as follows:

| | Net ($'000) | | Gross ($'000) | |
|---|---|---|---|---|
| | High 30% | Low 20% | High 30% | Low 20% |
| Provision for unexpired risks | 8,108 | 7,588 | 36,201 | 33,701 |

### II. Provision for insurance claims – sensitivity analysis

***Process of establishing provision for insurance claims***

For short-term credit insurance contracts, the Group sets aside specific provisions based on actual claims notified by the policyholders. Each notified claim is assessed on a case-by-case basis with regards to the claim circumstances and information available from external sources. These specific provisions are reviewed and updated regularly as and when there are developments and are not discounted for the time value of money.

The Group closely monitors the relevant projects for which the bonds and guarantees are issued, and makes specific provisions should the Group be made aware of potential claim payments through its regular project monitoring.

## 39 ACCOUNTING JUDGEMENTS AND ESTIMATES *(cont'd)*

### II. Provision for insurance claims – sensitivity analysis *(cont'd)*

***Process of establishing provision for insurance claims*** *(cont'd)*

Given the uncertainty in estimating the provision for insurance claims, it is likely that the actual outcome will be different from the provisions made based on internal provisioning. Accordingly, the Group engages an approved actuary to assess the adequacy of the Group's provision for insurance claims on an annual basis.

The reserving methodology and assumptions used by the approved actuary which remain unchanged from prior year, are intended to produce a "best" estimate of the provision for insurance claims through the analysis of historical claims payment and recovery data to project future claims payment. The "best" estimate is intended to represent the mean value of the range of future outcomes of the claim costs. The provision for insurance claims is expressed in terms of the present value of the future claim costs.

For short-term credit insurance policies, claim development triangles are constructed using the historical number of paid claims. The chain ladder method is applied to the triangle to project the ultimate number of claims. Analysis of average cost per claim and non-reinsurance recovery rates is then performed to compute an average net cost per claim. The estimate of outstanding claims is then derived by combining these items.

The chain ladder method involves the analysis of historical claim number development factors and the selection of estimated development factors based on the historical pattern. The selected factors are then applied to the cumulative numbers of claims for each underwriting year, for which the data is not yet fully developed, to produce an estimated ultimate number of claims.

In estimating the provision for insurance claims, the actuary includes an allowance for claims handling expenses and maintenance cost which are intended to cover the costs of administering outstanding claims until all claims are fully settled.

## 39 ACCOUNTING JUDGEMENTS AND ESTIMATES *(cont'd)*

### II. Provision for insurance claims – sensitivity analysis *(cont'd)*

***Process of establishing provision for insurance claims*** *(cont'd)*

The actuary's estimate for the provision for insurance claims is subject to uncertainty and variations of the actual and expected experience are to be expected. The inherent uncertainty is due to the fact that the ultimate claim cost is subject to the outcome of future events. Possible uncertainties include those related to the selection of models and assumptions, the statistical uncertainty, the general business and economic environment, and the impact of legislative reform. A PAD is therefore made to allow for uncertainty surrounding the estimation process and is intended to provide a 75% probability of adequacy for the provision for insurance claims. The PAD assumption relied on the actuary's inputs.

Based on the current assumptions, the gross and net provisions for insurance claims are as follows:

| | Net ($'000) | Gross ($'000) |
|---|---|---|
| **At 31 December 2008** | | |
| Estimated provision for insurance claims under the base scenario | 3,739 | 6,669 |

***Ultimate number of claims per million earned premiums in underwriting year 2008 for short-term credit insurance***

The ultimate number of claims paid is computed based on loss development triangles constructed using the number of paid claims from prior years.

In estimating outstanding claims under the base scenario, the Group has assumed that there will be approximately 12 claims per million of earned premiums in underwriting years 2006, 2007 and 2008. If the ultimate number of claims per million of earned premiums in underwriting year 2008 is assumed to be 11 or 13 claims, the corresponding gross and net provisions for insurance claims are set out as follows:

| | Net ($'000) | | Gross ($'000) | |
|---|---|---|---|---|
| | High 13 claims | Low 11 claims | High 13 claims | Low 11 claims |
| Provision for insurance claims | 4,022 | 3,456 | 7,198 | 6,141 |

## 39 ACCOUNTING JUDGEMENTS AND ESTIMATES *(cont'd)*

### II. Provision for insurance claims – sensitivity analysis *(cont'd)*

***Average claim size for short-term credit insurance***

Analyses on average cost per claim and reinsurance recovery rates are performed to derive an average net cost per claim.

The Group has assumed an average claim size of $33,250 under the base scenario. If the average claim size is assumed to be $38,250 and $28,250, the corresponding gross and net provisions for insurance claims will be as follows:

| | Net ($'000) | | Gross ($'000) | |
|---|---|---|---|---|
| | High $38,250 | Low $28,250 | High $38,250 | Low $28,250 |
| Provision for insurance claims | 4,151 | 3,328 | 7,439 | 5,900 |

***Claim handling expenses***

Allowance for CHE relates to the costs of administering outstanding claims until all claims are fully settled. CHE is computed based on:

*For short-term credit insurance policies*: 15% of incurred-but-not-reported claims and 7.5% of case reserves.

The effects of varying CHE by 25% (both upwards and downwards) are presented below:

| | Net ($'000) | | Gross ($'000) | |
|---|---|---|---|---|
| | High +25% | Low –25% | High +25% | Low –25% |
| Provision for insurance claims | 3,854 | 3,625 | 6,783 | 6,555 |

## 39 ACCOUNTING JUDGEMENTS AND ESTIMATES *(cont'd)*

### II. Provision for insurance claims – sensitivity analysis *(cont'd)*

***Provision for adverse deviation***

Provision for insurance claims also includes a PAD which will provide a 75% probability of adequacy for the provision for insurance claims.

The Group has assumed a claim PAD of 15% under the base scenario. Changing the PAD to either 20% or 10% results in changes in provision as follows:

| | Net ($'000) | | Gross ($'000) | |
|---|---|---|---|---|
| | High 20% | Low 10% | High 20% | Low 10% |
| Provision for insurance claims | 3,902 | 3,577 | 6,959 | 6,379 |

## 40 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on mutually agreed terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate taxation.

## 40 SEGMENT REPORTING *(cont'd)*

***Business segments***

The Group's main business segments comprise the following:

| | | |
|---|---|---|
| Commercial finance | : | Financing business focuses on providing services to corporate clients, mainly the small and medium-sized enterprises. The services provided include factoring, accounts receivable financing, trade financing, mortgage financing, working capital, syndicated loans, hire purchase, financing by Spring and IES under LEFS RFS and IF Scheme respectively. |
| Insurance | : | The provision of credit insurance facilities to Singapore exporters and the issue of performance bonds and guarantees including holding of equity securities and bonds under the Insurance Fund. |
| Private equity, venture capital and other investments | : | The provision of mezzanine financing, acquisition, holding and disposal of equity interest in private companies and long term investments in equity. |

***Geographical segments***

Commercial finance, insurance, private equity, venture capital and other investments segments are managed and operated in four principal geographical areas (2007: four) Singapore, South East Asia and Europe are the major markets for financing and insurance activities. The rest of Asia, US and others are the major markets for private equity, venture capital and other investments activities.

## 40 SEGMENT REPORTING *(cont'd)*

### (a) Business segments

| | Commercial finance $'000 | Insurance $'000 | Private equity, venture capital investments & others $'000 | Total $'000 |
|---|---|---|---|---|
| **2008** | | | | |
| **Operating results** | | | | |
| Total operating income | 25,219 | 6,022 | 3,029 | 34,270 |
| Segment results | 2,042 | 2,679 | 1,242 | 5,963 |
| Share of after-tax results of associates | 1,894 | – | – | 1,894 |
| Profit before taxation | | | | 7,857 |
| Taxation | | | | 158 |
| Net profit for the year | | | | 8,015 |
| **Assets and liabilities** | | | | |
| Segment assets | 275,284 | 87,949 | 16,209 | 379,442 |
| Associates | 11,546 | – | – | 11,546 |
| Unallocated assets | | | | 2,449 |
| Total assets | | | | 393,437 |
| Segment liabilities | 221,110 | 48,180 | 810 | 270,100 |
| Unallocated liabilities | | | | 2,365 |
| Total liabilities | | | | 272,465 |
| **Other information** | | | | |
| Capital expenditure | 675 | 135 | – | 810 |
| Depreciation and amortisation | 934 | 127 | 15 | 1,076 |
| Property, plant and equipment and intangible assets written off | 1 | – | – | 1 |

## 40 SEGMENT REPORTING *(cont'd)*

### (a) Business segments *(cont'd)*

| | Commercial finance $'000 | Insurance $'000 | Private equity, venture capital investments & others $'000 | Total $'000 |
|---|---|---|---|---|
| **2007** | | | | |
| **Operating results** | | | | |
| Total operating income | 28,985 | 12,578 | 3,905 | 45,468 |
| Segment results | 2,292 | 5,752 | 3,264 | 11,308 |
| Share of after-tax results of associates | 1,369 | – | – | 1,369 |
| Profit before taxation | | | | 12,677 |
| Taxation | | | | 179 |
| Net profit for the year | | | | 12,856 |
| **Assets and liabilities** | | | | |
| Segment assets | 332,360 | 92,284 | 43,013 | 467,657 |
| Associates | 11,718 | – | – | 11,718 |
| Unallocated assets | | | | 1,669 |
| Total assets | | | | 481,044 |
| Segment liabilities | 292,428 | 51,476 | 8,106 | 352,010 |
| Unallocated liabilities | | | | 5,113 |
| Total liabilities | | | | 357,123 |
| **Other information** | | | | |
| Capital expenditure | 424 | 102 | – | 526 |
| Depreciation and amortisation | 875 | 163 | – | 1,038 |
| Property, plant and equipment and intangible assets written off | 2 | 2 | – | 4 |

## 40 SEGMENT REPORTING *(cont'd)*

### (b) Geographical segments

| | Singapore $'000 | South East Asia $'000 | Rest of Asia $'000 | US & Others $'000 | Total $'000 |
|---|---|---|---|---|---|
| **2008** | | | | | |
| Total operating income | **27,515** | **5,331** | **620** | **804** | **34,270** |
| Segment assets | **327,118** | **43,151** | **9,687** | **1,935** | **381,891** |
| Associates | **–** | **11,546** | **–** | **–** | **11,546** |
| Total assets | **327,118** | **54,697** | **9,687** | **1,935** | **393,437** |
| Capital expenditure | **471** | **339** | **–** | **–** | **810** |
| Depreciation and amortisation | **951** | **125** | **–** | **–** | **1,076** |
| Property, plant and equipment and intangibles assets written off | **1** | **–** | **–** | **–** | **1** |
| **2007** | | | | | |
| Total operating income | 36,851 | 2,197 | 4,133 | 2,287 | 45,468 |
| Segment assets | 399,563 | 40,849 | 27,096 | 1,818 | 469,326 |
| Associates | – | 11,718 | – | – | 11,718 |
| Total assets | 399,563 | 52,567 | 27,096 | 1,818 | 481,044 |
| Capital expenditure | 440 | 86 | – | – | 526 |
| Depreciation and amortisation | 913 | 125 | – | – | 1,038 |
| Property, plant and equipment and intangibles assets written off | 3 | 1 | – | – | 4 |

## 40 SEGMENT REPORTING *(cont'd)*

In presenting information on the basis of geographical segments, total operating income is based on the geographical location of customers.

Total operating income comprises interest income, net earned premium revenue, fee and commission income and investment income.

Segment assets are based on the geographical location of the assets.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

## 41 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Group has not applied the following accounting standards and interpretations that have been issued as of the balance sheet date but are not yet effective:

- FRS 1 (Revised 2008) *Presentation of Financial Statements*
- FRS 23 (Revised 2007) *Borrowing Costs*
- Amendments to FRS 32 *Financial Instruments: Presentation and FRS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendments to FRS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedge Items*
- Amendments to FRS 101 *First-time Adoption of Financial Reporting Standards and FRS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to FRS 102 *Share-based payment – Vesting Conditions and Cancellations*
- FRS 108 *Operating Segments*
- Improvements to FRSs 2008
- INT FRS 113 *Customer Loyalty Programmes*
- INT FRS 116 *Hedges of a Net Investment in a Foreign Operation*

## 41 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED *(cont'd)*

FRS 1 (revised 2008) will become effective for the Group's financial statements for the year ending 31 December 2009. This revised standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. FRS 1 (revised 2008) does not have any impact on the Group's financial position or results.

FRS 108 will become effective for financial statements for the year ending 31 December 2009. FRS 108, which replaces FRS 14 *Segment Reporting*, requires identification and reporting of operating segments based on internal reports that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Improvements to FRSs 2008 will become effective for the Group's financial statements for the year ending 31 December 2009, except for the amendment to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* which will become effective for the year ending 31 December 2010. Improvements to FRSs 2008 contain amendments to numerous accounting standards that result in accounting changes for presentation, recognition or measurement purposes and terminology or editorial amendments. The Group is in the process of assessing the impact of these amendments.

Other than the changes in disclosures relating to FRS 1 and FRS 108, the initial application of these standards (including their consequential amendments) and interpretations is not expected to have any material impact on the Group's financial statements. The Group has not considered the impact of accounting standards issued after the balance sheet date.

# Additional information

Year ended 31 December 2008

## 1 INTERESTED PERSON TRANSACTIONS

| | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| Name of interested person | | |
| **Fund Manager Fees Paid** | | |
| Phillip Private Equity Pte Ltd | – | 100 |
| **Credit Facility Granted** | | |
| PT Phillip Securities, Indonesia | – | 185 |

## 2 MATERIAL CONTRACTS INVOLVING DIRECTORS' INTEREST

Saved as disclosed in the notes to the financial statements, there were no material contracts entered into by the Group involving the interest of the directors.

# Shareholdings Statistics

As at 6 March 2009

## SHARE CAPITAL

| | | |
|---|---|---|
| Issued and Paid-up Share Capital | : | $88,278,936 |
| Number of Shares | : | 124,287,522 |
| Class of Shares | : | ordinary shares |
| Voting Rights | : | one vote per share |

## ANALYSIS OF SHAREHOLDINGS

| Range of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 – 999 | 24 | 0.59 | 6,798 | 0.01 |
| 1,000 – 10,000 | 3,129 | 77.45 | 11,258,078 | 9.06 |
| 10,001 – 1,000,000 | 881 | 21.81 | 32,857,748 | 26.43 |
| 1,000,001 and above | 6 | 0.15 | 80,164,898 | 64.50 |
| | 4,040 | 100.00 | 124,287,522 | 100.00 |

## TOP TWENTY SHAREHOLDERS

| No. | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 1 | Phillip Securities Pte Ltd | 56,451,452 | 45.42 |
| 2 | SMRT Road Holdings Ltd | 8,520,093 | 6.86 |
| 3 | United Overseas Bank Nominees Pte Ltd | 6,185,573 | 4.98 |
| 4 | DBS Nominees Pte Ltd | 5,273,880 | 4.24 |
| 5 | OCBC Nominees Singapore Pte Ltd | 2,532,900 | 2.04 |
| 6 | Ng Chit Tong Peter | 1,201,000 | 0.97 |
| 7 | Citibank Nominees S'pore Pte Ltd | 760,400 | 0.61 |
| 8 | Lee Soon Kie | 750,000 | 0.60 |
| 9 | Tan Soon Lin | 718,000 | 0.58 |
| 10 | Lua Cheng Eng | 492,000 | 0.40 |
| 11 | Lai Weng Kay | 470,000 | 0.38 |
| 12 | Kwah Thiam Hock | 420,000 | 0.34 |
| 13 | Boon Kok Hup | 410,000 | 0.33 |
| 14 | Tan Li Cheng nee Lee | 408,000 | 0.33 |
| 15 | Wee Joo Guan Robert | 333,400 | 0.27 |
| 16 | Teo Yew Hock | 306,000 | 0.25 |
| 17 | Goh Chai Lam or Teng Siew Yeok | 305,000 | 0.24 |
| 18 | Merrill Lynch (S'pore) Pte Ltd | 256,000 | 0.21 |
| 19 | Kwok Meng Sun or Wong Poh Yook | 240,000 | 0.19 |
| 20 | Lim Mui Ling | 218,000 | 0.17 |
| | | 86,251,698 | 69.41 |

# Shareholdings Statistics (cont'd)

## SHAREHOLDING HELD IN HANDS OF PUBLIC

Based on information available to the Company as at 6 March 2009, approximately 50.96% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited is complied with.

## SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as recorded in the Register of Substantial Shareholders as at 6 March 2009

| | No. of Shares | | | |
|---|---|---|---|---|
| **Substantial Shareholder** | **Direct Interest** | **Deemed Interest** | **Total Interest** | **%** |
| Phillip Assets Pte. Ltd. | 50,216,246[1] | – | 50,216,246 | 40.40 |
| Lim Hua Min | – | 50,216,246[2] | 50,216,246 | 40.40 |
| SMRT Road Holdings Ltd | 8,520,093 | – | 8,520,093 | 6.86 |
| Temasek Holdings (Private) Limited | – | 8,520,093[3] | 8,520,093 | 6.86 |

**Notes:**

1 Deposited with the Depository Agent, Phillip Securities Pte. Ltd.

2 Mr Lim Hua Min is deemed to have an interest in the 50,216,246 shares held by Phillip Assets Pte. Ltd.

3 Temasek Holdings (Private) Limited is deemed to have an interest in the 8,520,093 shares held by SMRT Road Holdings Ltd.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Twenty-Second (22nd) Annual General Meeting of IFS Capital Limited will be held in the IFS Boardroom at 7 Temasek Boulevard #10-01 Suntec Tower One Singapore 038987 on Tuesday 28 April 2009 at 10.30 a.m. for the following purposes:

**ORDINARY BUSINESS**

1. To receive and adopt the Directors' Report and the Audited Accounts for the financial year ended 31 December 2008 together with the Auditors' Report thereon. **(Resolution 1)**

2. To approve the payment of a final one-tier tax exempt ordinary cash dividend of 1.0 cent per share for the financial year ended 31 December 2008. **(Resolution 2)**

3. To approve the Directors' fees of S$234,000 (2007: S$234,000) for the financial year ended 31 December 2008. **(Resolution 3)**

4. To re-elect the following Directors retiring in accordance with Article 91 of the Company's Articles of Association:
   (i) Mr Manu Bhaskaran **(Resolution 4)**
   (ii) Mr Lee Soon Kie **(Resolution 5)**

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

**SPECIAL BUSINESS**

To consider, and if thought fit, to pass the following Resolutions 7, 8 and 9 which will be proposed as Ordinary Resolutions:

6. That authority be and is hereby given to the Directors to:

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

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

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

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

provided that:

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution):

(A) by way of renounceable rights issues on a *pro rata* basis to shareholders of the Company ("**Renounceable Rights Issues**") shall not exceed 100 per cent. of the total number of issued shares in the capital of the Company excluding treasury shares (as calculated in accordance with sub-paragraph (3) below); and

(B) otherwise than by way of Renounceable Rights Issues ("**Other Share Issues**") shall not exceed 50 per cent. of the total number of issued shares in the capital of the Company excluding treasury shares (as calculated in accordance with sub-paragraph (3) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company shall not exceed 20 per cent. of the total number of issued shares in the capital of the Company excluding treasury shares (as calculated in accordance with sub-paragraph (3) below);

(2) the Renounceable Rights Issues and Other Share Issues shall not, in aggregate, exceed 100 per cent. of the total number of issued shares in the capital of the Company excluding treasury shares (as calculated in accordance with sub-paragraph (3) below);

(3) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited ("**SGX-ST**")) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraphs (1)(A) and (1)(B) above, the percentage of issued shares shall be based on the total number of issued shares in the capital of the Company excluding treasury shares at the time this Resolution is passed, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

(ii) any subsequent bonus issue, consolidation or subdivision of shares;

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

(5) (unless revoked or varied by the Company in General Meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier. **(Resolution 7)**

7. That, contingent on the passing of Resolution 7 above, authority be and is hereby given to the Directors to fix the issue price for shares that are to be issued by way of placement pursuant to the 20 per cent. sub-limit for Other Share Issues on a non *pro rata* basis referred to in Resolution 7 above, at a discount exceeding 10 per cent. but not more than 20 per cent. of the price as determined in accordance with the Listing Manual of the SGX-ST. **(Resolution 8)**

8. That approval be and is hereby given to the Directors to offer and grant options in accordance with the provisions of the "IFS (2000) Share Option Scheme" approved by the Company on 24 May 2000 (the "**2000 Scheme**") and to offer and grant awards in accordance with the provisions of the "IFS Performance Share Plan" approved by the Company on 24 May 2000 (the "**Performance Share Plan**") and to allot and issue from time to time such number of ordinary shares in the capital of the Company as may be required to be issued pursuant to the exercise of options granted or to be granted under the 2000 Scheme and the vesting of awards granted or to be granted under the Performance Share Plan, provided that the aggregate number of shares to be issued pursuant to the 2000 Scheme and the Performance Share Plan shall not exceed 15 per cent. of the total number of issued shares in the capital of the Company for the time being.

**(Resolution 9)**

**OTHER BUSINESS**

9. To transact any other business that may be transacted at an Annual General Meeting.

# Notice of Annual General Meeting

**NOTICE OF BOOKS CLOSURE AND DIVIDEND PAYMENT DATE**

NOTICE IS HEREBY GIVEN that, subject to the approval of the Shareholders for the proposed final dividend at the Annual General Meeting, the Share Transfer Books and the Register of Members of the Company will be closed on 7 May 2009, for the purpose of determining shareholders' entitlements to the proposed final one-tier tax exempt ordinary cash dividend for the year ended 31 December 2008.

Duly completed and stamped transfers together with all relevant documents of or evidencing title received by the Company's Share Registrar, M & C Services Private Limited at 138 Robinson Road #17-00 The Corporate Office Singapore 068906 up to the close of business at 5.00 p.m. on 6 May 2009 will be registered before entitlements to the proposed final dividend are determined. Shareholders whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares in the Company as at 5.00 p.m. on 6 May 2009 will be entitled to the proposed final dividend.

The proposed final dividend if approved at the Annual General Meeting, will be paid on 18 May 2009.

By Order of the Board

Chionh Yi Chian
Company Secretary
IFS Capital Limited

Singapore
2 April 2009

**Note:**
A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint one or two proxies to attend and vote in his stead. A proxy need not be a member of the Company. The instrument appointing a proxy or proxies must be deposited at the Registered Office of the Company not less than 48 hours before the time appointed for the Annual General Meeting.

1. **Notes to Resolution 4:**
Mr Manu Bhaskaran will, upon re-election as a Director of the Company, continue to serve as a Member of the Audit Committee. Mr Manu Bhaskaran is considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST.

2. **Notes to Resolution 7:**
**Resolution No. 7** is to empower the Directors to issue shares in the capital of the Company and to make or grant instruments (such as warrants or debentures) convertible into shares, and to issue shares in pursuance of such instruments, up to a number not exceeding (i) 100 per cent. for Renounceable Rights Issues and (ii) 50 per cent. for Other Share Issues, of which up to 20 per cent. may be issued other than on a *pro rata* basis to shareholders, **provided that** the total number of shares which may be issued pursuant to (i) and (ii) shall not exceed 100 per cent. of the issued shares in the capital of the Company excluding treasury shares. The aggregate number of shares which may be issued shall be based on the total number of issued shares in the capital of the Company (excluding treasury shares) at the time that Resolution No. 7 is passed, after adjusting for (a) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time that Resolution No. 7 is passed, and (b) any subsequent bonus issue, consolidation or subdivision of shares.

   The authority for 100 per cent. Renounceable Rights Issues is proposed pursuant to the SGX news release of 19 February 2009 which introduced further measures to accelerate and facilitate listed issuers' fund raising efforts ("**SGX News Release**").

3. **Notes to Resolution 8:**
**Resolution No. 8**, if passed, will authorise the Directors to fix the issue price for shares that are issued by way of placement pursuant to the 20 per cent. sub-limit for Other Share Issues on a non *pro rata* basis referred to in Resolution No. 7 at a discount exceeding 10 per cent. but not more than 20 per cent. of the price as determined in accordance with the Listing Manual of the SGX-ST. This Resolution is proposed pursuant to the SGX News Release.

4. **Notes to Resolution 9:**
The effect of this Resolution is to empower the Directors of the Company to offer and grant options and/or awards under the "IFS (2000) Share Option Scheme" (the "**2000 Scheme**") and the "IFS Performance Share Plan" (the "**Performance Share Plan**") respectively and to allot and issue shares in the capital of the Company on the exercise of options granted under the 2000 Scheme and the vesting of awards granted under the Performance Share Plan, provided that the aggregate number of shares to be issued pursuant to the 2000 Scheme and the Performance Share Plan shall not exceed 15 per cent. of the total number of issued shares in the capital of the Company for the time being.

*This page is intentionally left blank.*

PROXY FORM

# IFS CAPITAL LIMITED

(Incorporated in the Republic of Singapore)
Company Registration No. 198700827C

**Twenty-Second (22nd) Annual General Meeting**

IMPORTANT

1. For investors who have used their CPF monies to buy shares in the capital of IFS Capital Limited, the Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We ______________________________(Name) ______________(NRIC/Passport No.)

of ____________________________________________ (Address)

being a member/members of IFS Capital Limited (the "Company"), hereby appoint:-

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

**and/or (delete as appropriate)**

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

as my/our proxy/proxies to attend and vote for me/us on my/our behalf and, if necessary, to demand a poll, at the Twenty-Second (22nd) Annual General Meeting of the Company to be held in the IFS Boardroom at 7 Temasek Boulevard #10-01, Suntec Tower One, Singapore 038987, on Tuesday 28 April 2009 at 10.30 a.m. and at any adjournment thereof. The proxy is to vote for or against the Resolutions before the Meeting as indicated below. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her discretion, as he/she will on any other matter arising at the Meeting.

| | Resolutions | For | Against |
|---|---|---|---|
| **Ordinary Business** | | | |
| 1 | Adoption of Directors' Report, Audited Accounts and Auditors' Report | | |
| 2 | Payment of a Final One-Tier Tax Exempt Ordinary Cash Dividend of 1.0 cent per share | | |
| 3 | Approval of Directors' Fees amounting to S$234,000 | | |
| 4 | Re-election of Director: Mr Manu Bhaskaran | | |
| 5 | Re-election of Director: Mr Lee Soon Kie | | |
| 6 | Re-appointment of KPMG LLP as Auditors | | |
| **Special Business** | | | |
| 7 | Ordinary Resolution:<br>Authorise Directors to Issue Shares and Instruments Convertible into Shares | | |
| 8 | Ordinary Resolution:<br>Authorise Directors to fix Issue Price for Shares that are issued by way of placement pursuant to 20% sub-limit for Other Shares Issues on a non *pro rata* basis, at a discount exceeding 10% but not more than 20% | | |
| 9 | Ordinary Resolution:<br>Authorise Directors to Grant Options and Awards and to Issue Shares Pursuant to the IFS (2000) Share Option Scheme and the IFS Performance Share Plan | | |

[Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast "for" or "against" the Resolutions as set out in the Notice of Annual General Meeting.]

Dated this ______ day of ____________________ 2009

| 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

**IMPORTANT: PLEASE READ NOTES OVERLEAF**

Notes:-

1 Please insert the total number of ordinary shares in the capital of the Company ("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 the Annual General Meeting is entitled to appoint one or two proxies to attend and vote in his stead. Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy. A proxy need not be a member of the Company.

3 The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of an officer or attorney duly authorised.

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

5 The instrument appointing a proxy or proxies, duly completed, must be deposited at the registered office of the Company at 7 Temasek Boulevard #10-01 Suntec Tower One Singapore 038987 (Attention : The Company Secretary) not less than 48 hours before the time appointed for the Annual General Meeting.

6 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 members whose Shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have Shares entered against their names in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting as certified by The Central Depository (Pte) Limited to the Company.

*1st fold here*

Affix
Postage
Stamp

**The Company Secretary**
**IFS CAPITAL LIMITED**
**7 Temasek Boulevard**
**#10-01 Suntec Tower One**
**Singapore 038987**

*2nd fold here*

*This page is intentionally left blank.*

*This page is intentionally left blank.*

Designed and produced by
SNP Vite
+65 6578 6522

**IFS Capital Limited**
7 Temasek Boulevard #10-01
Suntec Tower One
Singapore 038987

Tel: 6270 7711
Fax: 6339 9527
Website: www.ifscapital.com.sg
Reg No. 198700827C