

*Directors' Statement and
Audited Financial Statements*

R Systems (Singapore) Pte Limited
(Co. Reg. No. 199707692G)

For the year ended 31 December 2019

R Systems (Singapore) Pte Limited
(Co. Reg. No. 199707692G)

General Information

Directors

Satinder Singh Rekhi
Harpreet Rekhi
Chan Kum Ming
Joydeep Sen Chaudhuri

Secretary

Ng Chee Tiong

Independent Auditor

HLB Atrede LLP

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Directors' Statement – continued

4. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (continued)

Name of directors	Holding registered in names of directors		Holdings in which directors are deemed to have an interest	
	At beginning of year	At end of year	At beginning of year	At end of year
Ordinary shares of Rs. 1 each				
<u>The immediate and ultimate holding company - R Systems International Limited</u>				
Satinder Singh Rekhi	3,148,044	3,062,207	21,226,949	20,646,550
Harpreet Rekhi	1,508,452	1,467,277	21,226,949	20,646,550
Chan Kum Ming	8,000	8,000	–	–

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

5. OPTIONS TO TAKE UP UNISSUED SHARES

During the financial year, no option to take up unissued shares of the Company was granted.

6. OPTIONS EXERCISED

During the financial year, there were no shares of the Company issued by virtue of the exercise of options to take up unissued shares.

7. UNISSUED SHARES UNDER OPTION

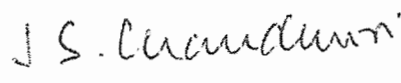
At the end of the financial year, there are no unissued shares of the Company under option.

8. INDEPENDENT AUDITOR

The independent auditor, HLB Atrede LLP has expressed its willingness to accept re-appointment as auditor.

On behalf of the board of directors,


Chan Kum Ming
Director


Joydeep Sen Chaudhuri
Director

Singapore

17 JAN 2020

**Independent Auditor's Report
to the member of R Systems (Singapore) Pte Limited
(Co. Reg. No. 199707692G)**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of R Systems (Singapore) Pte Limited (the Company), which comprise the balance sheet as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

**Independent Auditor's Report
to the member of R Systems (Singapore) Pte Limited – continued**
(Co. Reg. No. 199707692G)

Other Information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

**Independent Auditor's Report
to the member of R Systems (Singapore) Pte Limited – continued**
(Co. Reg. No. 199707692G)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

**Independent Auditor's Report
to the member of R Systems (Singapore) Pte Limited – continued
(Co. Reg. No. 199707692G)**

Report on Other Legal and Regulatory Requirements

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



HLB Atrede LLP
Public Accountants and
Chartered Accountants

Singapore
17 January 2020

R Systems (Singapore) Pte Limited
(Co. Reg. No. 199707692G)

Balance Sheet as at 31 December 2019

	Note	2019 \$	2018 \$
Non-current assets			
Plant and equipment	4	2,033	4,177
Investment in associate	5	2,775,560	2,775,560
Investment in subsidiaries	6	4,608,550	4,608,450
		<u>7,386,143</u>	<u>7,388,187</u>
Current assets			
Trade receivables	7	1,120,250	1,472,524
Other receivables	8	9,350	29,984
Contract asset	9	–	3,182
Prepayment		46,304	63,128
Amounts due from a holding company	10	47,972	51,176
Cash and cash equivalents	11	539,317	689,215
		<u>1,763,193</u>	<u>2,309,209</u>
Current liabilities			
Other payables	12	197,630	634,673
Contract liability	13	1,041	20,087
Amounts due to related companies	14	295,342	337,272
Tax payable	15	–	869
		<u>494,013</u>	<u>992,901</u>
Net current assets		1,269,180	1,316,308
Net assets		<u>8,655,323</u>	<u>8,704,495</u>
Equity attributable to owner of the Company			
Share capital	16	7,631,000	7,631,000
Accumulated profits		1,024,323	1,073,495
Total equity		<u>8,655,323</u>	<u>8,704,495</u>

The accompanying accounting policies and explanatory notes form an integral part of financial statements.

R Systems (Singapore) Pte Limited
(Co. Reg. No. 199707692G)

Statement of Comprehensive Income for the financial year ended 31 December 2019

	Note	2019 \$	2018 \$
Revenue	17	7,035,592	7,220,642
Cost of sales		<u>(6,028,734)</u>	<u>(6,170,519)</u>
Gross profit		1,006,858	1,050,123
Other operating income	18	212,440	23,514
Distribution costs		(11,523)	(4,972)
Administrative expenses		(1,255,620)	(1,053,952)
Other (charges)/credits	19	<u>(287)</u>	<u>514,784</u>
(Loss)/profit before tax	20	(48,132)	529,497
Income tax (expense)/credit	21	<u>(1,040)</u>	<u>2,341</u>
(Loss)/profit for the year		(49,172)	531,838
Other comprehensive income		<u>–</u>	<u>–</u>
Total comprehensive (loss)/income for the year		<u><u>(49,172)</u></u>	<u><u>531,838</u></u>

Statement of Changes in Equity
Year ended 31 December 2019

	Share capital \$	Accumulated profits \$	Total \$
Balance at 1 January 2018	7,631,000	541,657	8,172,657
Total comprehensive income for the year	<u>–</u>	<u>531,838</u>	<u>531,838</u>
Balance at 31 December 2018	7,631,000	1,073,495	8,704,495
Total comprehensive loss for the year	<u>–</u>	<u>(49,172)</u>	<u>(49,172)</u>
Balance at 31 December 2019	<u><u>7,631,000</u></u>	<u><u>1,024,323</u></u>	<u><u>8,655,323</u></u>

The accompanying accounting policies and explanatory notes form an integral part of financial statements.

R Systems (Singapore) Pte Limited
(Co. Reg. No. 199707692G)

Cash Flow Statement for the financial year ended 31 December 2019

	2019 \$	2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(48,132)	529,497
Adjustments for:		
Bad debts written off	–	1,146
Depreciation	2,144	2,545
Fair value adjustment of contingent consideration for business combination	–	(516,000)
Interest income	1,038	906
(Allowance)/reversal for expected credit losses	(663)	883
Operating (loss)/profit before working capital changes	<u>(45,613)</u>	<u>18,977</u>
Decrease/(increase) in trade and other receivables, contract asset	393,577	(328,033)
(Decrease)/increase in other payables and contract liability	(456,089)	49,146
Decrease in amounts due to related companies	(55,541)	(193,762)
Cash used in operations	<u>(163,666)</u>	<u>(453,672)</u>
Interest received	(1,038)	(906)
Tax paid	(1,520)	(8,619)
Foreign tax paid	(389)	–
Net cash flows used in operating activities	<u>(166,613)</u>	<u>(463,197)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase of investment in subsidiary	(100)	–
Purchase of plant and equipment	–	(2,130)
Net cash flows used in investing activities	<u>(100)</u>	<u>(2,130)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(decrease) in amounts due to related companies	13,611	(12,391)
Decrease/(increase) in amounts due from a holding company	3,204	(3,876)
Net cash flows generated/(used in) financing activities	<u>16,815</u>	<u>(16,267)</u>
Net decrease in cash and cash equivalents	(149,898)	(481,594)
Cash and cash equivalents at beginning of year	689,215	1,170,809
Cash and cash equivalents at end of year	<u>539,317</u>	<u>689,215</u>

The accompanying accounting policies and explanatory notes form an integral part of financial statements.

Notes to the Financial Statements – 31 December 2019

These notes are an integral part of and should be read in conjunction with the accompanying financial statements.

1. CORPORATE INFORMATION

The Company is a private limited company incorporated and domiciled in Singapore and its immediate and ultimate holding company is R Systems International Limited incorporated in India listed on the National Stock Exchange of India Limited and BSE Limited.

The registered office of the Company and its principal place of business are located at 16 Jalan Kilang #04-01 Hoi Hup Building Singapore 159416.

The principal activities of the Company are those of carrying on business of software development, consultancy services and executive search services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *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 where otherwise described in the accounting policies below.

The financial statements are presented in Singapore Dollars (SGD or \$) and all values are rounded to the nearest one-dollar unless otherwise stated.

The accounting policies adopted are consistent with those used in the previous financial year except in current financial year, the Company has adopted all applicable new and revised standards and Interpretations of FRS (“INT FRS”) that are relevant to its operations and effective for the current financial year. The adoption of these standards and INT FRS did not have any material effect on the financial position or performance of the Company for the current or prior financial years

The Company applied FRS 116 for the first time. The nature and effect of the changes as a result of the adopting of these new accounting standards are described below:

FRS 116 Leases

FRS 116 supersedes FRS 17 *Leases*, INT FRS 104 *Determining whether an Arrangement contains a Lease*, INT FRS 15 *Operating Leases-Incentives* and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on balance sheet.

The Company has performed an assessment on whether a contract is, or contains a lease at the date of initial application and concluded that the contract entered does not fulfil the requirements of FRS 116.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) *Basis of preparation (continued)*

Standards issued but not yet effective

The Company has not adopted the following standards and interpretations which are potentially relevant to the Company that has been issued but not yet effective:

	Effective date (Annual periods beginning on or after)
Amendments to FRS 1 and FRS 8: <i>Definition of Material</i>	1 January 2020
Amendments to FRS 109, FRS 39 and FRS 107: <i>Interest Rate Benchmark Reform</i>	1 January 2020
Amendments to References to the Conceptual Framework in FRS Standards, illustrative examples, implementation guidance and FRS Practice Statements	1 January 2020
Revised Conceptual Framework	1 January 2020

The directors expect that the adoption of the standards and interpretations above will have no material impact on the financial statements in the period of initial application.

(b) *Functional and foreign currency*

The management has determined the currency of the primary economic environment in which the Company operates i.e. functional currency, to be SGD.

Foreign currency transactions

Transactions in foreign currencies are measured in SGD and are recorded on initial recognition at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are re-translated to the functional currency at the rate of exchange ruling at the end of the reporting period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

(c) *Plant and equipment*

All items of plant and equipment are initially recorded at cost. Subsequent to recognition, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Plant and equipment (continued)*

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Computer	–	1 to 3 years
Furniture and fittings	–	3 years
Office equipment	–	5 years

Fully depreciated assets are retained in the financial statements until they are no longer in use.

For acquisition and disposals of plant and equipment, depreciation is provided in the month of acquisition and no depreciation is provided in the month of disposal.

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

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

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

(d) *Associates*

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

The Company has exempted in accordance to FRS 28 in accounting for its investments in associates using the equity method from the date on which it becomes an associate.

The Company's investments in associates are accounted for at cost less any impairment losses.

Exemption from accounted the investment in associate using equity method

The financial statements of the associate have not been equity accounted for with the Company's financial statements as the Company itself is a wholly owned subsidiary of R Systems International Ltd, a company incorporated in India, which prepares consolidated financial statements on a worldwide basis. Such financial statements are publicly available.

The registered address of R System International Ltd is B-104A Grater Kailash-I, New Delhi, 110 048 India.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Subsidiary*

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investments in subsidiary is accounted for at cost less impairment losses.

Consolidated Financial Statements (Non-consolidated)

The financial statements of the subsidiary has not been consolidated with the Company's financial statements as the Company itself is a wholly owned subsidiary of R Systems International Ltd, incorporated in India, which prepares consolidated financial statements on a worldwide basis. Such financial statements are publicly available.

The registered address of R Systems International Ltd is GF-1-A, 6, Devika Tower, Nehru Place, New Delhi, India 110019.

Investments in subsidiary in the financial statements of the Company are stated at cost, less any impairment in recoverable value.

(f) *Financial instrument*

(i) *Financial assets*

Initial recognition and measurement

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) *Financial instruments (continued)*

(i) *Financial assets (continued)*

Subsequent measurement

Investments in debt instruments

Subsequent measurement of debt instruments depends on the business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are:

▪ *Amortised cost*

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

▪ *Fair value through other comprehensive income (FVOCI)*

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

▪ *Fair value through profit or loss*

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) *Financial instruments (continued)*

(i) *Financial assets (continued)*

Subsequent measurement (continued)

Derecognition

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

(ii) *Financial liabilities*

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

(iii) *Offsetting of financial instruments*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Impairment of financial assets*

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the internal credit rating of the debt instrument. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Impairment of financial assets (continued)*

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (i) significant financial difficulty of the issuer or the borrower;
- (ii) a breach of contract, such as a default or past due event;
- (iii) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (v) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the procedures for recovery of amounts due.

(h) *Impairment of non-financial assets*

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

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) ***Contract balances***

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

(j) ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and at bank.

(k) ***Trade and other payables***

Trade and other payables are non-interest bearing and trade payables are normally settled on 30 to 60 days' terms while other payables have an average term of six months.

(l) ***Government grants***

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Government grant shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income may be presented as a credit in profit or loss, either separately or under a general heading such as "Other income". Alternatively, they are deducted in reporting the related expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) *Provisions*

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed.

If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(n) *Employee benefits*

(i) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

In particular, the Company makes contributions to the Central Provident Fund (“CPF”) scheme in Singapore, a defined contribution pension scheme. These contributions are recognised as an expense in the period in which the related service is performed.

(ii) *Employee leave entitlement*

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

(o) *Operating leases under FRS 17*

Leases where the lessor effectively retains substantially all the risks and benefits of ownerships of the leased are classified as operating leases.

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

Notes to the Financial Statements – 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) *Revenue*

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Company satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(i) *Consultancy services*

The Company recognises revenue from consultancy services over time, using an output method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company. The output methods recognise revenue on the basis of direct measurements of the value to the customer of the services transferred to date relative services promised under the contract.

(ii) *Placement fee*

Placement fee is related to recruitment services provided and it is recognised as revenue at the point of time when the services is rendered.

(iii) *Software development services*

The Company recognises revenue from software development services over time, using an output method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company. The output methods recognise revenue on the basis of direct measurements of the value to the customer of the services transferred to date relative services promised under the contract.

(iv) *Interest income*

Interest income is recognised using the effective interest method.

(q) *Taxes*

(i) *Current income tax*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) *Taxes (continued)*

(i) *Current income tax (continued)*

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

(ii) *Deferred tax*

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

Deferred tax liabilities are recognised for all temporary differences.

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) *Taxes (continued)*

(iii) *Goods and services tax*

Revenue, expenses and assets are recognised net of the amount of goods and services tax (“GST”) except:

- Where the goods and services tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the goods and services tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of goods and services tax included.

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

(r) *Related parties*

A related party is defined as follows:

- (a) A person or a close member of that person’s family is related to the Company if that person:
 - (i) Has control or joint control over the Company;
 - (ii) Has significant influence over the Company; or
 - (iii) Is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Company if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Notes to the Financial Statements – 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities, and disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

(i) *Judgement made in applying accounting policies*

In the process of applying the accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

▪ *Revenue from contracts with customers*

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

The Company concluded that revenue for contract services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Company. The fact that another company would not need to re-perform the services that it has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Company's performance as it performs.

The Company recognises revenue over time by measuring its progress towards complete satisfaction of that performance obligation using the output method. The Output methods recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative services promised under the contract. The Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date. Therefore, the Company recognises revenue in the amount to which it has a right to invoice for service provided.

(ii) *Estimates and assumptions*

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

Notes to the Financial Statements – 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(ii) *Estimates and assumptions (continued)*

▪ *Provision for expected credit losses of trade receivables and contract assets*

The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for various customers segments that have similar loss patterns. The provision matrix is initially based on the Company's historical observed default rates

Loss given default is an estimate of the loss arising on default.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The information about the ECLs on the Company's trade receivables is disclosed in Note 7.

4. PLANT AND EQUIPMENT

	Computer	Furniture and fittings	Office equipment	Total
	\$	\$	\$	\$
Cost:				
At 1 January 2018	101,334	–	3,500	104,834
Additions	–	950	1,180	2,130
Written off	(4,820)	–	–	(4,820)
At 31 December 2018 and 1 January 2019	96,514	950	4,680	102,144
Additions	–	–	–	–
At 31 December 2019	96,514	950	4,680	102,144
Accumulated depreciation:				
At 1 January 2018	98,434	–	1,808	100,242
Charge for the year	1,457	211	877	2,545
Written off	(4,820)	–	–	(4,820)
At 31 December 2018 and 1 January 2019	95,071	211	2,685	97,967
Charge for the year	891	317	936	2,144
At 31 December 2019	95,962	528	3,621	100,111
Net carrying amount:				
At 31 December 2018	1,443	739	1,995	4,177
At 31 December 2019	552	422	1,059	2,033

Notes to the Financial Statements – 31 December 2019

5. INVESTMENT IN ASSOCIATE

	2019 \$	2018 \$
Unquoted equity shares at cost	<u>2,775,560</u>	<u>2,775,560</u>

The Company held approximately 30.38% (2018: 30.38%) equity interest in ECnet Limited, incorporated in Singapore.

The principal activities of the associate are those of providers of collaborative Internet-based supply chain solutions and management services, customers technical and administrative support services and information technology consultancy services.

6. INVESTMENT IN SUBSIDIARIES

Unquoted equity shares at cost	<u>4,608,550</u>	<u>4,608,450</u>
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The details of the investment in subsidiary at 31 December 2019 are as follows:

Name and principal activities	Country of incorporation	Cost of investments		Proportion (%) of ownership interest	
		2019 \$	2018 \$	2019 %	2018 %
<i>Held by the Company</i>					
IBIZ Consulting Pte. Ltd (I.T. integrated solution services and I.T support)	Singapore	4,608,450	4,608,450	100	100
PT. IBIZCS Indonesia (I.T. integrated solution services and I.T. support)	Indonesia	100	–	0.44	0.44
		<u>4,608,550</u>	<u>4,608,450</u>		

The details of the indirect subsidiaries held by IBIZ Consulting Pte. Ltd. at 31 December 2019 are as follows:

Name and principal activities	Country of incorporation	Proportion (%) of ownership interest	
		2019 %	2018 %
<i>Held by direct subsidiary company</i>			
<i>– IBIZ Consulting Pte. Ltd.</i>			
IBIZ Consulting Services Pte Ltd (I.T. integrated solution services and I.T. support)	Singapore	100	100
IBIZ Consulting Services Sdn. Bhd. (I.T. integrated solution services and I.T. support)	Malaysia	100	100

Notes to the Financial Statements – 31 December 2019

6. INVESTMENT IN SUBSIDIARIES (continued)

Name and principal activities	Country of incorporation	Proportion (%) of ownership interest	
		2019 %	2018 %
<i>Held by direct subsidiary company</i>			
<i>– IBIZ Consulting Pte. Ltd. (continued)</i>			
PT. IBIZCS Indonesia (I.T. integrated solution services and I.T. support)	Indonesia	100	100
IBIZ Consultancy Services India Private Limited (I.T. integrated solution services and I.T. support)	India	–	100
IBIZ Consulting Services Limited (I.T. integrated solution services and I.T. support)	Hong Kong	100	100
IBIZ Consulting (Thailand) Co., Ltd (I.T. integrated solution services and I.T. support)	Thailand	100	–
<i>Held by indirect subsidiary company</i>			
<i>– IBIZ Consulting Services Limited, Hong Kong</i>			
IBIZ Consulting Services (Shanghai) Co., Ltd (I.T. integrated solution services and I.T. support)	China	100	100

During the financial year:

- (i) One of the Company's indirect subsidiaries, IBIZ Consultancy Services India Private Limited was disposed of to its ultimate holding company, R Systems International Limited.
- (ii) The Group had also invested in a wholly-owned subsidiary, IBIZ Consulting (Thailand) Co., Ltd with a cash consideration of \$137,000.
- (iii) Due to the changes of regulations in Indonesia for the minimum amount of paid up capital, the Company had contributed additional \$100 to the paid-up capital of the subsidiary, PT. IBIZCS Indonesia.

7. TRADE RECEIVABLES

	2019 \$	2018 \$
Trade receivables	1,120,470	1,473,407
Less: Allowance for expected credit losses	(220)	(883)
	<u>1,120,250</u>	<u>1,472,524</u>

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. They are recognised at their original invoice amounts which represents their fair values on initial recognition.

Trade receivables denominated in following currencies as at 31 December are as follows:

Singapore Dollar	1,115,808	1,468,430
United States Dollar	4,442	4,094
	<u>1,120,250</u>	<u>1,472,524</u>

Notes to the Financial Statements – 31 December 2019

7. TRADE RECEIVABLES (continued)

Receivables that are impaired

The table below shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach.

	Lifetime ECL credit impaired \$
At 1 January 2018	–
Allowance for expected credit losses	(883)
At 31 December 2018 and 1 January 2019	(883)
Reversal for expected credit losses	663
At 31 December 2019	(220)

The Company uses an allowance matrix to measure the ECLs of trade receivables from individual customers.

The following table provides information about the exposure to credit risk and ECLs for trade receivables for individual customers as at 31 December 2019:

	Expected credit loss rate %	Gross Carrying amount \$	Lifetime ECL \$	Credit impaired
2019				
Current (not past due)	0.01	654,860	(70)	Yes
1 to 30 days past due	0.03	330,503	(105)	Yes
31 to 60 days past due	0.03	121,353	(40)	Yes
61 to 90 days past due	0.03	13,754	(5)	Yes
91 to 120 days past due	0.39	–	–	No
121 to 150 days past due	0.39	–	–	No
151 to 180 days past due	0.39	–	–	No
181 to 365 days past due	2.00	–	–	No
		1,120,470	(220)	
2018 @				
Current (not past due)	0.01	758,906	(81)	Yes
1 to 30 days past due	0.03	558,151	(173)	Yes
31 to 60 days past due	0.03	101,463	(36)	Yes
61 to 90 days past due	0.03	8,079	(2)	Yes
91 to 120 days past due	0.50	8,079	(40)	Yes
121 to 150 days past due	0.50	8,079	(40)	Yes
151 to 180 days past due	0.50	8,109	(41)	Yes
181 to 365 days past due	2.00	22,541	(470)	Yes
		1,473,407	(883)	

@ In case of non-collection, the default rate of ECL is 100%.

Notes to the Financial Statements – 31 December 2019

8. OTHER RECEIVABLES

	2019	2018
	\$	\$
Security deposit	–	20,000
Sundry receivable	9,350	9,984
	<u>9,350</u>	<u>29,984</u>

9. CONTRACT ASSETS

Contract assets primarily relate to the right to consideration for work completed but not yet billed at reporting date for services rendered. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Company invoices the customer.

Management always estimates the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the historical default experience and the future prospects of the Technology industry. None of the amounts due from customers at the end of the reporting period is past due.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the contract assets.

10. AMOUNTS DUE FROM A HOLDING COMPANY

The amounts due are non-trade related, unsecured, interest-free, repayable upon demand and to be settled in cash.

11. CASH AND CASH EQUIVALENTS

Cash at bank	539,317	589,215
Short term deposit	–	100,000
	<u>539,317</u>	<u>689,215</u>

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short-term deposits are made for a varying period of three months depending on the immediate cash requirements of the Company, and earn interests at the rate of Nil% (2018: 0.92%).

Cash and cash equivalents amounting to \$67,193 (2018: \$32,086) is denominated in United States Dollar.

Notes to the Financial Statements – 31 December 2019

12. OTHER PAYABLES

	2019	2018
	\$	\$
Accrued liabilities	86,058	79,087
CPF payable	53,235	44,079
Deferred grant	–	137
GST payable	58,337	73,777
Sundry payables	–	2,593
Contingent consideration for business combination	–	435,000
	<u>197,630</u>	<u>634,673</u>

Contingent consideration for business combination

As part of the purchase agreement with the previous owners of IBIZ Consulting Pte. Ltd. in financial year 2015, a contingent consideration has been agreed and payment is based on the earning from operation before interest, taxes, depreciation and amortisation (EBITDA) applicable for financial year according to the following:

- (i) By no later 31 March 2016, 62% of EBITDA financial year 2015;
- (ii) By no later 31 March 2017, 70% of EBITDA financial year 2016; and
- (iii) By no later 31 March 2018, 78% of EBITDA financial year 2017.

The purchase contingent consideration was \$2,603,080 as at the date acquisition of the subsidiary.

	\$
Financial liability for the contingent consideration as at 31 December 2018	435,000
Fair value adjustment as at 31 December 2018	<u>(435,000)</u>
Financial liability for the contingent consideration as at 31 December 2019	<u>–</u>

13. CONTRACT LIABILITY

A contract liability is relating to the advance billing to customer for the consultancy services to be provided. The revenue relating to the consultancy services is recognised when services rendered.

14. AMOUNTS DUE TO RELATED COMPANIES

Trade	278,623	334,164
Non-trade	16,719	3,108
	<u>295,342</u>	<u>337,272</u>

The amounts due are unsecured, interest-free, repayable upon demand and to be settled in cash.

Notes to the Financial Statements – 31 December 2019

14. AMOUNTS DUE TO RELATED COMPANIES (continued)

A reconciliation of liabilities arising from financing activities is as follows:

	2018	Cash flows	Non-cash	2019
	\$	\$	changes	\$
			\$	
Amounts due from a holding company	(51,176)	3,204	–	(47,972)
Amounts due to related companies				
– Trade	334,164	(55,541)	–	278,623
– Non-trade	3,108	13,611	–	16,719
	<u>286,096</u>	<u>(38,726)</u>	<u>–</u>	<u>247,370</u>

15. TAX PAYABLE

	2019	2018
	\$	\$
Balance at beginning of year	869	11,829
Current year's tax expense on profit	–	869
Under/(over) provision for prior year	651	(3,210)
Income tax paid	(1,520)	(8,619)
Balance at end of year	<u>–</u>	<u>869</u>

16. SHARE CAPITAL

	2019		2018	
	Number of shares	\$	Number of shares	\$
Issued and fully paid:				
Ordinary shares	<u>5,780,768</u>	<u>7,631,000</u>	<u>5,780,768</u>	<u>7,631,000</u>

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

Notes to the Financial Statements – 31 December 2019

17. REVENUE

	2019	2018
	\$	\$
<i>Type of goods and services:</i>		
Consultancy services	6,764,667	7,083,597
Placement fees	250,780	127,301
Software development services	20,145	9,744
	<u>7,035,592</u>	<u>7,220,642</u>
<i>Timing of revenue recognition:</i>		
Services transferred at a point in time	250,780	127,301
Services transferred over time	6,784,812	7,093,341
	<u>7,035,592</u>	<u>7,220,642</u>

There were no significant judgement and methods in estimating revenue during the financial year.

18. OTHER OPERATING INCOME

Dividend income	3,889	–
Government grants – PIC cash payout	137	410
– Special employment credit	2,421	2,444
– Temporary employment credit	–	3,164
– Wage credit scheme	29,878	16,590
Interest income from current accounts	1,038	906
Sundry income – Guest House and car rental	175,077	–
	<u>212,440</u>	<u>23,514</u>

19. OTHER (CHARGES)/CREDITS

Reversal/(allowance) for expected credit losses	663	(883)
Bad debt written off	–	(1,146)
Fair value adjustment of contingent consideration for business combination	–	516,000
Foreign exchange adjustment, (loss)/gain	(950)	813
	<u>(287)</u>	<u>514,784</u>

20. (LOSS)/PROFIT BEFORE TAX

The (loss)/profit before tax is arrived at after charging:

Foreign worker levy	30,101	38,330
Insurance	41,528	57,899
Rental of premise	53,700	53,700

Notes to the Financial Statements – 31 December 2019

21. INCOME TAX EXPENSE/(CREDIT)

(i) *Major components of income tax expense*

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019	2018
	\$	\$
Statement of comprehensive income:		
Current tax	–	869
Under/(over) provision for prior year	651	(3,210)
Foreign tax paid	389	–
	<u>1,040</u>	<u>(2,341)</u>

(ii) *Relationship between tax expense and accounting profit*

The reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December 2019 and 2018 are as follows:

(Loss)/profit before tax	<u>(48,132)</u>	<u>529,497</u>
Tax (benefit)/expense on (loss)/profit before tax at 17%	(8,182)	90,015
Adjustments:		
Non-deductible expenses	151	248
Income not subject to tax	(988)	(88,098)
Tax rebate	–	(114)
Tax exemption	–	(1,419)
Deferred tax assets on temporary difference not recognised	9,019	(177)
Under/ (over) provision for prior year	651	(3,210)
Others	389	414
Total tax expense/(credit)	<u>1,040</u>	<u>(2,341)</u>

22. EMPLOYEE BENEFITS

Employee benefits expenses (including directors)		
Salaries, bonuses and allowances	3,600,744	3,815,497
Central provident fund contributions	283,723	227,982
Staff commission	4,655	8,120
	<u>3,889,122</u>	<u>4,051,599</u>

Notes to the Financial Statements – 31 December 2019

23. RELATED PARTY DISCLOSURES

In addition to those related party information disclosed elsewhere in the financial statements, the following significant transactions between the Company and related parties that took place at terms agreed between the parties during the financial year:

(i) *Significant related party transactions*

	2019 \$	2018 \$
<i>Related companies</i>		
Accounting fee	91,992	91,992
Human resource recruitment fee	50,400	50,400
Management fee	117,108	117,108
Other consultant cost – ECNet Limited	974,566	1,870,589
Professional fee	118,800	118,800
Sundry income – car rental	42,000	42,000
Rental of premise	53,700	53,700
Consultancy services	37,199	158,779
Software development cost	20,145	9,744
Other consultant cost and related services – IBIZ Consulting Services Pte Ltd	1,532,875	605,619
Expenses paid on behalf of	–	520,145
Receipt on behalf of	–	472,733
Fund transfer from	–	530,240
	<u> </u>	<u> </u>
<i>Related party</i>		
Consultancy services	<u>21,394</u>	<u> </u>
<i> Holding company</i>		
Sundry income – Guest House rental	<u>133,077</u>	<u> </u>

(ii) *Compensation of key management personnel*

Key management personnel of the Company are those persons having the authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the Company. The directors of the Company and the general management of the Company are considered as key management personnel of the Company.

Director’s remuneration	<u>225,423</u>	<u>210,143</u>
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24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, foreign currency risk and liquidity risk. The Company's risk management policies focus on the unpredictability of financial markets and seek to, where appropriate, minimise potential adverse effects on the financial performance of the Company. The Company does not have any written financial risk management policies and guidelines and there has been no change to the Company's exposure to these financial risks or the manner in which it manages and measures the risks.

The following sections provide details regarding the Company's exposure to the financial risks associated with financial instruments held in the ordinary course of business and the objectives, policies and processes for the management of these risks.

(i) *Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from trade and other debtors. Guidelines on credit terms provided to trade customers are established and continually monitored. For other financial assets including cash and short-term deposits, the Company minimises credit risk by dealing exclusively with reputable and well-established local and foreign banks, and companies with high credit ratings and no history of defaults.

The Company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposures. Credit policies with guidelines on credit terms and limits set the basis for risk control. New customers are subject to credit evaluation while the Company continues to monitor existing customers, especially those with repayment issues. In addition, appropriate allowances are made for probable losses when necessary for identified debtors.

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise credit risk, the Company has developed and maintain the credit risk gradings to categorise exposures according to their degree of risk of default. The Company uses publicly available financial information and the Company's own trading records to rate its major customers and other debtors. The Company exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Notes to the Financial Statements – 31 December 2019

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) *Credit risk (continued)*

The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses (ECL)
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and has no realistic prospect of recovery.	Amount is written off

The tables below detail the credit quality of the Company's financial assets, as well as maximum exposure to credit risk by credit risk rating grades:

	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount \$	Loss allowance \$	Net carrying amount \$
2019							
Trade receivables	7	N.A.	(a)	Lifetime ECL (simplified approach)	1,120,470	(220)	1,120,250
Other receivables	8	N.A.	Performing	12m ECL	9,350	–	9,350
Amounts due from a holding company	10	N.A.	Performing	12m ECL	47,972	–	47,972
						<u>(220)</u>	
2018							
Trade receivables	7	N.A.	(a)	Lifetime ECL (simplified approach)	1,473,407	(883)	1,472,524
Other receivables	8	N.A.	Performing	12m ECL	29,984	–	29,984
Contract assets	9	N.A.	(a)	Lifetime ECL (simplified approach)	3,182	–	3,182
Amounts due from a holding company	10	N.A.	Performing	12m ECL	51,176	–	51,176
						<u>(833)</u>	

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) *Credit risk (continued)*

- (a) For trade receivables and contract assets, the Company has applied the simplified approach in FRS 109 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix (Note 7).

Exposure to credit risk

At the end of the reporting period, the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheet. No other financial assets carry a significant exposure to credit risk.

Credit risk concentration profile

At the end of the reporting period, there were no significant concentrations of credit risk due to the Company's many varied customers.

(ii) *Foreign currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Company provides services in several countries other than Singapore and transacts in foreign currencies. As a result, the Company is exposed to movements in foreign currency exchange rates arising from normal trading transactions, primarily with respect to United States dollar (USD). However, the Company does not use any financial derivatives such as foreign currency forward contracts, foreign currency options or swaps for hedging purposes.

The Company has no significant foreign currency exposure at the end of the financial period.

(iii) *Liquidity risk*

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

The Company's liquidity risk management policy is to monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the Company's operations and mitigate the fluctuations in cash flows.

The maturity profile of the Company's financial liabilities at the end of reporting period based on contractual undiscounted cash flow is less than a year.

Notes to the Financial Statements – 31 December 2019

25. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The following table summarises the carrying amount of financial instrument recorded at the end of the reporting period by FRS 109 categories.

	2019	2018
	\$	\$
<i>Financial assets at amortised cost</i>		
Trade receivables	1,120,250	1,472,524
Other receivables	9,350	29,984
Amounts due from a holding company	47,972	51,176
Cash and cash equivalent	539,317	689,215
	<u>1,716,889</u>	<u>2,242,899</u>
<i>Financial liabilities at amortised cost</i>		
Other payables	139,293	560,759
Amounts due to related companies	295,342	337,272
	<u>434,635</u>	<u>898,031</u>

26. FAIR VALUE OF ASSETS AND LIABILITIES

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(i) Fair value hierarchy

The Company categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Company can access at the measurement date,
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset or liability.

The Company has no assets and liabilities that are carried at fair value at the end of each reporting period.

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

Current trade and other receivables and payables (including amounts due from/(to) related companies), cash and cash equivalents, and accrued operating expenses.

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

27. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy working capital ratios in order to support its business and maximise shareholder value.

In order to maintain or achieve an optimal capital structure, the Company may issue new shares, obtain new borrowing, sell assets to reduce debts or funding from holding company.

No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

The Company manages capital by regularly monitoring its current and expected liquidity requirements. The Company is not subject to any externally imposed capital requirements.

28. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 17 January 2020.