

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1. CORPORATE INFORMATION

M1 Limited (the Company) is a public limited liability company, which is incorporated and domiciled in the Republic of Singapore and is listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

Its registered office and principal place of business is at 10 International Business Park, Singapore 609928.

The principal activities of the Company and its subsidiaries (collectively, the Group) are the provision of telecommunications services, international call services and fixed services, retail sales of telecommunications equipment and accessories, and customer services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on the historical cost basis except for available-for-sale financial instruments that have been measured at their fair values.

The financial statements are presented in Singapore dollars (S\$) and all values are rounded to the nearest thousand (S\$'000) except when otherwise indicated.

The Accounting Standards Council announced on 29 May 2014 that Singapore incorporated companies listed on the Singapore Exchange will apply a new financial reporting framework identical to the International Financial Reporting Standards. The Group will adopt the new financial reporting framework on 1 January 2018.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2016. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.



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

2.3 Standards issued but not yet effective

The Group has not adopted the following standards that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to FRS 7: Disclosure Initiative	1 January 2017
Amendments to FRS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Improvements to FRSs (December 2016)	
– Amendments to FRS 112: Classification and Measurement of Share-based Payment Transactions	1 January 2017
– Amendments to FRS 28: <i>Measuring an Associate or Joint Venture at fair value</i>	1 January 2018
Amendments to FRS 102: <i>Classification and measurement of Share-based payment transactions</i>	1 January 2018
Amendments to FRS 40: <i>Transfers of Investment Property</i>	1 January 2018
INT FRS 122 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
FRS 109 <i>Financial Instruments</i>	1 January 2018
FRS 115 <i>Revenue from Contracts with Customers</i>	1 January 2018
FRS 116 <i>Leases</i>	1 January 2019
Amendments to FRS 110 and FRS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be determined

Except for FRS 109, FRS 115 and FRS 116, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 115 and FRS 109 are described below.

FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under FRS. A full retrospective application will be adopted for annual periods beginning on or after 1 January 2018, in this case, the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognised at the earliest period shown. The Group will apply all the practical expedients available for full retrospective approach under FRS 115.

During 2016, with the assistance of a third party consultant, the Group performed a detailed analysis of FRS 115 and is currently undergoing the system implementation phase. The Group is in the business of providing telecommunications services, international call services, fixed services, retail sales of telecommunications equipment and accessories, and customer services.

The Group's nature of business involves primarily the bundling of services with handsets or equipment, which will have a significant impact upon the adoption of FRS 115 in 2018.

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

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

FRS 115 Revenue from Contracts with Customers (cont'd)

At inception, FRS 115 allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract (i.e. subscription services and handsets or equipment), assessed on an individual contract basis. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowance, trade discounts and volume rebates. With the adoption of FRS 115, revenue from the sale of goods will be recognised at fair value resulting in the increase of allocation of revenue to handsets or equipment at inception. Correspondingly, the service revenue recorded over the duration of the performance of the contract will be lower. In addition, the timing of recognition of sales commission expenses will also result in an impact as a substantial portion of these costs (which are currently expensed) will be capitalized and amortized. In the event that a material right has been exercised, it will result in more revenue being deferred than is under current FRS.

A cross-functional coordinated implementation team has been established to implement the standard update related to the recognition of revenue from contracts with customers. Various contract scenarios have been identified and the Group is in the process of implementing changes to the systems, processes and internal controls to meet the standard update's reporting and disclosure requirements.

FRS 109 Financial Instruments

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

The Group plans to adopt the new standard on the required effective date without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

(a) Classification and measurement

The Group intends to hold its currently held-to-maturity instruments assets to collect contractual cash flows, and accordingly measured at amortised cost when it applies FRS 109. The Group does not expect any significant impact to arise on the adoption of the new standard.

For equity securities, the Group will elect to measure its currently held available-for-sale quoted and unquoted equity securities at fair value through other comprehensive income. The Group does not expect any significant impact to arise on the adoption of the new standard.

(b) Impairment

FRS 109 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. Upon application of the expected credit loss model, the Group expects an impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of impact.



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

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

FRS 116 Leases

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees – leases of 'low value' assets and short term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Group is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Group expects the adoption of the new standard will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

2.4 *Basis of consolidation*

Business combinations from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

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

2.4 Basis of consolidation (cont'd)

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.10(a).

Business combinations before 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent measurements to the contingent consideration affected goodwill.

2.5 Subsidiaries

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 subsidiaries are accounted for at cost less any impairment losses.

2.6 Associates

An associate is an entity over which the Group 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 Group accounts for its investment in associates using the equity method from the date on which it becomes an associate.

On acquisition of the associate, any excess of the cost of the investment over the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted as goodwill and is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the investment in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. The profit or loss reflects the share of results of the associates. Distributions received from associates reduce the carrying amount of the investment. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income.

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



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

2.6 Associates (cont'd)

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

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

2.7 Fixed assets

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

The initial cost of fixed assets comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Dismantling, removal or restoration costs included as part of the cost if obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally recognised in profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed asset beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of fixed assets.

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

2.8 Depreciation

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis over the estimated useful life as follows:

Leasehold buildings	–	10 – 30 years
Networks and related application systems	–	5 – 25 years
Application systems and computers	–	3 – 10 years
Motor vehicles	–	5 years
Furniture, fittings and equipment	–	2 – 7 years

Capital work-in-progress included in fixed assets is not depreciated as these assets are not available for use.

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

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

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

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

2.9 Licences and spectrum rights

These comprise expenditure relating to one-time charges paid to acquire spectrum rights and telecommunications licences or access codes. These intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Licences and spectrum rights are amortised on a straight-line basis over the estimated economic useful life of 6 to 17 years. The amortisation period and the amortisation method are reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense is recognised in profit or loss through the 'depreciation and amortisation' line item.

2.10 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

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

(b) Club membership

Club membership acquired is measured initially at cost less accumulated amortisation and impairment losses.

(c) Internet protocol (IP) address

Internet protocol address acquired is measured initially at cost. Following initial recognition, IP address is measured at cost less accumulated amortisation and any accumulated impairment losses.

IP address is amortised on a straight-line basis over the estimated economic useful life of 15 years. The amortisation period and the amortisation method are reviewed at each financial year-end. The amortisation expense is recognised in profit or loss through 'depreciation and amortisation' line item.



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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

2.11 Investments

The Group classifies its investments in financial assets in the following categories: held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

Investments are initially measured at fair value plus transaction costs less any accumulated impairment losses. For unquoted equity investments whose fair value cannot be reliably measured using alternative valuation methods, they are carried at cost less any accumulated impairment losses.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the statement of comprehensive income.

For held-to-maturity investments, gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

The fair value of investments that are traded in active markets is based on quoted market prices at the statement of financial position date. The quoted market price is the current bid prices. The fair value of investments that are not traded in an active market is determined using valuation techniques. Such techniques include using recent arm's length transactions, reference to the underlying net asset value of the investee companies or discounted cash flow analysis.

2.12 Financial assets

Initial recognition and measurement

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

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

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

(a) *Trade and other receivables*

Trade and other receivables, including amounts due from related parties, are classified and accounted for as loans and receivables under FRS 39.

Included in the trade receivables balance are accrued service revenue and accrued handset revenue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

2.12 Financial assets (cont'd)

Initial recognition and measurement (cont'd)

(a) *Trade and other receivables (cont'd)*

Accrued service revenue relates to services rendered but not billed to customers. They will be billed at the following bill cycle.

Accrued handset revenue relates to revenue recognised for handsets sold with services. The accounting policy relating to specific recognition criteria for handset revenue and service revenue is disclosed in Note 2.22.

Allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.14 below.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognised at fair value, plus directly attributable transaction costs and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial assets 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 that impairment losses and foreign exchange gains and losses on monetary instruments 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 derecognised.

(c) *Held-to-maturity financial assets*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.



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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

2.12 Financial assets (cont'd)

Initial recognition and measurement (cont'd)

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and time deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. They are carried in the statement of financial position, classified and accounted for under FRS 39.

For purpose of the consolidated cash flow statement, cash and cash equivalents are shown net of outstanding bank overdrafts, if any, which are repayable on demand and which form an integral part of the Group's cash management.

2.13 Financial liabilities

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instruments. The Group 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.

The accounting policies adopted for specific financial liabilities are set out below.

Borrowings

All borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and when the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Trade and other payables

Liabilities for trade and other payables, which are normally settled on 30-90 days terms, and amounts due to related parties are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

2.14 Impairment of financial assets

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

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in profit or loss.

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

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

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

Available-for-sale financial assets

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

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

2.15 Derecognition of financial assets and liabilities

(a) *Financial assets*

A financial asset is derecognised where the contractual rights to receive cash flows from the asset have 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 is recognised in profit or loss.

(b) *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. For financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised or impaired, and through the amortisation process.

2.16 Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost incurred in bringing the inventories to their present location and condition is accounted for on weighted average basis.

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

Net realisable value is the estimated selling price in the normal course of business, less estimated costs necessary to make the sale.

2.17 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic resources 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 finance costs.

2.18 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with.

Government grants 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.

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

2.19 Employee benefits

(a) Defined contribution plan

The Group 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.

(b) Employee share option plan

Employees (including the executive director) and non-executive directors of the Group may receive remuneration in the form of share-based payment transactions. Employees render services as consideration for share options (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value of the options at the date on which the share options are granted. In valuing the share option, no account is taken of any performance conditions, other than conditions linked to the price of shares of the Company (market condition), if applicable.

The cost of equity-settled transactions is amortised and recognised in profit or loss on a straight-line basis over the vesting period, with a corresponding increase in share option reserve. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The movement in cumulative expenses recognised at the beginning and end of a reporting period is charged or credited to profit or loss with a corresponding adjustment to share option reserve.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. In the case where the option does not vest as the result of a failure to meet a vesting condition that is within the control of the Group or the employee, it is accounted for as a cancellation. In such case, the amount of the compensation cost that otherwise would be recognised over the remainder of the vesting period is recognised immediately in profit or loss upon cancellation. The share option reserve is transferred to retained profits upon expiry of the share option.

2.20 Taxes

(a) Current income tax

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

(b) Deferred tax

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

2.20 Taxes (cont'd)

(b) Deferred tax (cont'd)

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

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

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

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

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

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

Deferred income tax relating to items recognised directly in equity is recognised 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 tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

2.20 Taxes (cont'd)

(c) Goods and services tax

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

- Where the goods and services tax incurred in a purchase of goods and services is not recoverable from the taxation authority, in which case the goods and services tax is recognised 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 statement of financial position.

2.21 Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset up to the end of its useful life. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in profit or loss. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years. After such reversal, the depreciation charge is adjusted in future periods to allocate the assets revised carrying amount less any residual value, on a systematic basis over its remaining useful life.

2.22 Revenue recognition

Revenue of the Group comprises fees earned from telecommunications, international call services and fixed services rendered and sale of handsets.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

- Service revenue is recognised at the time when such services are rendered. Revenue billed in advance of the rendering of services is deferred on the statement of financial position as unearned revenue.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

2.22 Revenue recognition (cont'd)

- Revenue from sale of prepaid cards but for which services have not been rendered is deferred on the statement of financial position as unearned revenue. Upon termination of the prepaid cards, any unutilised value of the prepaid cards will be taken to profit or loss.
- Revenue from sale of handset is recognised upon the transfer of significant risk and reward of the handset to the customer which generally coincides with delivery and acceptance of the handsets sold.
- Revenue on award credits are recognised based on the number of award credits that have been redeemed in exchange for free or discounted goods and services, relative to the total numbers of awards expected to be redeemed.
- Interest income is recognised using the effective interest rate method.

2.23 Customer acquisition costs

Customer acquisition costs are accounted for in profit or loss when incurred.

2.24 Operating leases

Operating lease payments are recognised as an expense in 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.

2.25 Foreign currency

The Group's consolidated financial statements are presented in Singapore dollars, which is also the Company and subsidiary companies' functional currencies.

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at the statement of financial position date are recognised in profit or loss.

2.26 Segment reporting

The Company and its subsidiaries operate in Singapore in one business segment, that of provision of telecommunications services, international call services and fixed services, retail sales of telecommunications equipment and accessories, and customer services.

2.27 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

2.28 Treasury Shares

The Group's own equity instruments, which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount of treasury shares and the consideration received, if reissued, is recognised directly in equity. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

2.29 Contingencies

A contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- b) a present obligation that arises from past events but is not recognised because:
 - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

Key sources of estimation uncertainty (cont'd)

- *Useful lives of network and related application systems*

The cost of network and related application systems is depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these fixed assets to be within 5 to 25 years. These are common life expectancies applied in the telecommunications industry. Changes in the expected level of usage and technological developments could impact the economic useful life and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amounts of the Group's and Company's network and related application systems at the statement of financial position date are disclosed in Note 11 to the financial statements.

- *Sensitivity analysis*

The Group's carrying amount of the network and related application systems stated at net book value as at 31 December 2016 was S\$551,748,000 (2015: S\$532,813,000). If the useful lives of the network and related systems increase by 5%, the carrying amount of the network and related application systems for the Group will increase by S\$3,837,000 (2015: S\$3,612,000) and the carrying amount of the network and related application systems for the Company will increase by S\$3,831,000 (2015: S\$3,612,000).

If the useful lives of the network and related systems decreased by 5%, the carrying amount of the network and related application systems for the Group will decrease by S\$4,241,000 (2015: S\$3,992,000) and the carrying amount of the network and related application systems for the Company will increase by S\$4,234,000 (2015: S\$3,992,000).

- *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment at least on an annual basis.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the key assumptions applied in the impairment assessment of goodwill are given in Note 13 to the financial statements.

- *Impairment of loans and receivables*

The Group and the Company assess at each statement of financial position date whether there is any objective evidence that a financial asset is impaired. Factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments are objective evidence of impairment. In determining whether there is objective evidence of impairment, the Group considers whether there is observable data indicating that there have been significant changes in the debtor's payment ability or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Actual results may differ from management's estimates. The carrying amounts of the Group's and the Company's loans and receivables at the statement of financial position date are disclosed in Note 31 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

4. OPERATING REVENUE

	Group	
	2016 S\$'000	2015 S\$'000
Mobile telecommunications	639,968	667,707
International call services	61,310	68,708
Handset sales	255,393	334,931
Fixed services	104,231	85,850
	1,060,902	1,157,196

5. OPERATING EXPENSES

	Group	
	2016 S\$'000	2015 S\$'000
Cost of services	117,598	111,740
Cost of handsets sold	344,496	418,456
(Write-back)/write-down of inventories (Note 19)	(589)	648
Staff costs	115,005	118,177
Advertising and promotion expenses	22,093	24,277
Depreciation and amortisation	126,760	118,448
Allowance for doubtful debts (Note 20)	9,767	10,551
Bad debts recovered	(1,398)	(1,638)
Facilities expenses	86,425	82,067
Leased circuit costs	31,489	31,684
General and administrative expenses	29,283	25,623
	880,929	940,033

Cost of services includes mainly traffic expenses, wholesale costs of fixed services and connection incentives payable to dealers.

General and administrative expenses include billing costs, licence fees and other administrative costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

5. OPERATING EXPENSES (CONT'D)

Total operating expenses included the following:

	Group	
	2016 S\$'000	2015 S\$'000
Audit fees paid to auditors of the Company	219	221
Non-audit fees paid to auditors of the Company	23	22
CPF contributions	11,619	11,111
Share-based payments	1,147	2,062
Key executives' remuneration	6,544	7,219
Fees paid to Directors of the Company	905	858
Foreign exchange loss/(gain), net	16	(247)
Loss/(gain) on disposal of fixed assets, net	5	(109)

Key executives' remuneration included in the staff costs and share-based payments are as follows:

Short term employee benefits	5,843	6,122
CPF contributions	249	197
Share-based payments	452	900
Total compensation paid to key executives	6,544	7,219

6. OTHER INCOME

	Group	
	2016 S\$'000	2015 S\$'000
Interest income:		
– Interest income from unquoted convertible note	136	–
– Interest income from banks	16	37
	152	37
Government grants	3,547	4,028
Miscellaneous income	1,674	2,110
	5,373	6,175

Miscellaneous income includes project management fee income.

7. FINANCE COSTS

	Group	
	2016 S\$'000	2015 S\$'000
Interest expense on bank loans	6,749	4,918

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

8. TAXATION

Major components of income tax expense

Major components of income tax expense for the years ended 31 December 2016 and 2015 are:

	Group	
	2016 S\$'000	2015 S\$'000
Current income tax		
– Current year	27,458	37,664
– (Over)/under provision in respect of prior year	(5,622)	88
Deferred income tax		
– Origination and reversal of temporary differences	5,182	1,160
– Under provision in respect of prior year	1,875	1,026
Income tax expense recognised in profit or loss	28,893	39,938

Relationship between statutory tax rate and effective tax rate

A reconciliation of the statutory tax rate with the effective tax rate applicable to profit before tax of the Group for the years ended 31 December 2016 and 2015 are as follows:

	Group	
	2016 S\$'000	2015 S\$'000
Profit before tax	178,544	218,420
Tax calculated using Singapore tax rates of 17% (2015: 17%)	30,352	37,131
Adjustments:		
Expenses not deductible for tax purposes	3,779	2,082
Income not subject to taxation	(5)	(250)
(Over)/under provision in respect of prior years	(3,747)	1,114
Effects of tax relief	(880)	(139)
Benefits from previously unrecognised tax losses	(616)	–
Others	10	–
Tax expense	28,893	39,938

At the end of the reporting period, the Group has tax losses of approximately nil (2015: S\$2,009,000) and capital allowances nil (2015: S\$1,614,000) available for offset against future taxable profit, for which no deferred tax assets are recognised due to uncertainty of their recoverability. The use of these tax losses and capital allowances is subject to the agreement of the respective tax authorities and compliance with certain provisions of the tax regulation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

8. TAXATION (CONT'D)

Deferred tax liabilities

Deferred taxation at 31 December 2016 and 2015 are related to the following:

	Group				Company	
	Consolidated statement of financial position		Consolidated statement of comprehensive income		Statement of financial position	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Deferred tax liabilities						
Difference in depreciation	117,985	110,928	7,057	2,186	115,681	111,393

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to owners of the Company by the weighted average number of ordinary shares on issue during the financial year. Diluted earnings per share is calculated by dividing the net profit for the year attributable to owners of the Company by the weighted average number of ordinary shares on issue during the financial year (adjusted for effects of dilutive share options).

The following reflects the earnings and share data used in the computation of basic and diluted earnings per share for the financial years ended 31 December:

	Group	
	2016 S\$'000	2015 S\$'000
Net profit attributable to owners of the Company for basic and diluted earnings per share	149,651	178,482
	No. of shares	No. of shares
	2016 '000	2015 '000
Weighted average number of ordinary shares on issue applicable for basic earnings per share computation	931,361	935,984
Effect of dilution:		
Share options	144	2,039
Adjusted weighted average of ordinary shares on issue applicable for diluted earnings per share computation	931,505	938,023

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

10. EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

EBITDA is derived as follows:

	Group	
	2016 S\$'000	2015 S\$'000
Profit before tax	178,544	218,420
Adjustments for:		
Amortisation of licences, spectrum rights and other intangibles	14,354	13,037
Depreciation of fixed assets	112,406	105,411
Finance costs	6,749	4,918
EBITDA	312,053	341,786

11. FIXED ASSETS

	Leasehold buildings S\$'000	Networks and related application systems S\$'000	Application systems and computers S\$'000	Motor vehicles S\$'000	Furniture, fittings and equipment S\$'000	Capital work-in- progress S\$'000	Total S\$'000
Group							
Cost:							
At 1 January 2015	111,980	1,683,503	241,369	1,290	72,459	97,400	2,208,001
Additions	3,933	88,287	18,167	395	3,249	19,451	133,482
Disposals	–	–	(119)	–	(39)	–	(158)
Reclassification	–	46,261	57,045	–	–	(103,306)	–
At 31 December 2015 and 1 January 2016	115,913	1,818,051	316,462	1,685	75,669	13,545	2,341,325
Additions	11,831	99,520	23,079	–	3,533	2,583	140,546
Disposals	–	–	(173)	–	(46)	–	(219)
At 31 December 2016	127,744	1,917,571	339,368	1,685	79,156	16,128	2,481,652
Accumulated depreciation:							
At 1 January 2015	51,086	1,209,385	196,490	791	64,392	–	1,522,144
Depreciation charge for the year	4,521	75,853	19,708	206	5,123	–	105,411
Disposals	–	–	(118)	–	(39)	–	(157)
At 31 December 2015 and 1 January 2016	55,607	1,285,238	216,080	997	69,476	–	1,627,398
Depreciation charge for the year	5,081	80,585	22,257	213	4,270	–	112,406
Disposals	–	–	(172)	–	(15)	–	(187)
At 31 December 2016	60,688	1,365,823	238,165	1,210	73,731	–	1,739,617
Net carrying amount:							
At 31 December 2015	60,306	532,813	100,382	688	6,193	13,545	713,927
At 31 December 2016	67,056	551,748	101,203	475	5,425	16,128	742,035

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

11. FIXED ASSETS (CONT'D)

	Leasehold buildings S\$'000	Networks and related application systems S\$'000	Application systems and computers S\$'000	Motor vehicles S\$'000	Furniture, fittings and equipment S\$'000	Capital work-in- progress S\$'000	Total S\$'000
Company							
Cost:							
At 1 January 2015	111,890	1,682,206	229,871	1,290	54,252	97,400	2,176,909
Additions	3,933	88,287	8,408	395	380	19,451	120,854
Disposals	–	–	(94)	–	(38)	–	(132)
Reclassification	–	46,261	57,045	–	–	(103,306)	–
At 31 December 2015 and 1 January 2016	115,823	1,816,754	295,230	1,685	54,594	13,545	2,297,631
Additions	11,831	97,981	20,024	–	158	2,583	132,577
Disposals	–	–	(109)	–	–	–	(109)
At 31 December 2016	127,654	1,914,735	315,145	1,685	54,752	16,128	2,430,099
Accumulated depreciation:							
At 1 January 2015	51,035	1,208,153	189,649	791	52,238	–	1,501,866
Depreciation charge for the year	4,522	75,852	16,825	206	1,186	–	98,591
Disposals	–	–	(94)	–	(38)	–	(132)
At 31 December 2015 and 1 January 2016	55,557	1,284,005	206,380	997	53,386	–	1,600,325
Depreciation charge for the year	5,079	80,441	18,439	213	487	–	104,659
Disposals	–	–	(109)	–	–	–	(109)
At 31 December 2016	60,636	1,364,446	224,710	1,210	53,873	–	1,704,875
Net carrying amount:							
At 31 December 2015	60,266	532,749	88,850	688	1,208	13,545	697,306
At 31 December 2016	67,018	550,289	90,435	475	879	16,128	725,224

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

12. LICENCES AND SPECTRUM RIGHTS

	Licences S\$'000	Spectrum rights S\$'000	Total S\$'000
Group and Company			
Cost:			
At 1 January 2015/31 December 2015 and 1 January 2016	2,453	181,707	184,160
Addition	–	64,064	64,064
At 31 December 2016	2,453	245,771	248,224
Accumulated amortisation:			
At 1 January 2015	2,319	79,775	82,094
Amortisation charge for the year	101	12,851	12,952
At 31 December 2015 and 1 January 2016	2,420	92,626	95,046
Amortisation charge for the year	21	14,188	14,209
At 31 December 2016	2,441	106,814	109,255
Net carrying amount:			
At 31 December 2015	33	89,081	89,114
At 31 December 2016	12	138,957	138,969

The licences and spectrum rights have remaining useful lives ranging from 0.5 years to 14 years (2015: 1.5 years to 15 years).

13. OTHER INTANGIBLES

	Goodwill S\$'000	Others S\$'000	Total S\$'000
Group			
Cost:			
At 1 January 2015/31 December 2015 and 1 January 2016	13,177	764	13,941
Additions	–	687	687
At 31 December 2016	13,177	1,451	14,628
Accumulated amortisation:			
At 1 January 2015	–	68	68
Amortisation charge for the year	–	85	85
At 31 December 2015 and 1 January 2016	–	153	153
Amortisation charge for the year	–	145	145
At 31 December 2016	–	298	298
Net carrying amount:			
At 31 December 2015	13,177	611	13,788
At 31 December 2016	13,177	1,153	14,330

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

13. OTHER INTANGIBLES (CONT'D)

Other intangibles includes club memberships and internet protocol addresses. As at 31 December 2016, the internet protocol addresses have remaining useful lives ranges from 11 years to 14 years (2015: 12 years).

	Club memberships S\$'000
Company	
Cost:	
At 31 December 2015/1 January 2016 and 31 December 2016	125
Accumulated amortisation:	
At 31 December 2015 and 1 January 2016	(42)
Amortisation charge for the year	(83)
At 31 December 2016	(125)
Net carrying amount:	
At 31 December 2015	83
At 31 December 2016	–

Impairment testing of goodwill

The Group's subsidiary, M1 Net Ltd. (M1 Net) previously, acquired a 100% equity interest in M1 Connect Pte. Ltd. (M1 Connect).

Management has allocated the goodwill to M1 Net and M1 Connect as a single cash-generating unit (CGU) for impairment testing. The recoverable amount of the CGU has been determined based on value in use calculations using cash flow projections covering a five-year period. The discount rate applied to the cash flow projections and terminal growth rate used to extrapolate cash flow projections beyond the five-year period are 8% (2015: 8%) and nil (2015: nil) respectively.

The calculation of value in use for the CGU is most sensitive to the following assumptions:

Terminal growth rate – The terminal growth rate used does not exceed the long term average growth rate of the industry and country in which the CGU operates.

Discount rate applied should reflect the current market assessment of the risks specific to the CGU.

No impairment loss (2015: nil) was recognised in profit or loss.

A reasonable change to the assumptions used by the management to determine the impairment required, particularly the discount rate and terminal growth rate, would not significantly affect the results.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

14. STAFF LOANS

	Group and Company	
	2016 S\$'000	2015 S\$'000
Repayable within one year (included in Note 21)	109	81
Repayable after one year	331	187
	440	268

Staff loans are repayable in equal monthly instalments over periods of up to seven years and interest bearing at rates of up to 2% (2015: 2%) per annum.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2016 S\$'000	2015 S\$'000
Unquoted shares:		
At cost	8,660	8,660
Impairment loss	(1,560)	(1,560)
	7,100	7,100

Details of the subsidiaries of the Company as at 31 December 2016 and 2015 are as follows:

Name of Company	Country of incorporation	Principal activities	Effective interest of the Company	
			2016 %	2015 %
Held by the Company:				
M1 Shop Pte Ltd	Singapore	Retail sales of telecommunication equipment and accessories	100	100
M1 Net Ltd.	Singapore	Provision of fixed and other related telecommunication services	100	100
M1 TeliNet Pte. Ltd.	Singapore	Licensor of intellectual property rights and investment holding	100	100
Kliq Pte. Ltd.	Singapore	Dormant	100	100
Held through M1 Net Ltd.:				
M1 Connect Pte. Ltd.	Singapore	Inactive	100	100

All subsidiaries are audited by Ernst & Young LLP except for Kliq Pte. Ltd. for which there is no statutory audit requirement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

16. DUE FROM/(TO) RELATED PARTIES AND SUBSIDIARIES

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Due from subsidiaries (non-trade)	-	-	40,207	25,401
Due from subsidiaries	-	-	-	457
Due from related parties	1,374	235	1,372	235
	1,374	235	1,372	692
Due to subsidiaries	-	-	(54,773)	-
Due to related parties	(465)	(187)	(373)	(116)
	(465)	(187)	(55,146)	(116)

The non-trade amounts due from subsidiaries are unsecured, non-interest bearing and are not expected to be repaid by the subsidiaries in the next twelve months.

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

The amounts due from/(to) related parties are unsecured, non-interest bearing and are generally repayable on 30 to 90 days terms.

17. INVESTMENT IN AN ASSOCIATE

On 2 August 2016, M1 TeliNet Pte. Ltd., a subsidiary of the Company invested S\$3.0 million into Octopus Retail Management Pte Ltd (ORM). The contribution of 30% of the shareholding in ORM has resulted in ORM to be an associated company of the Group. As at the end of the financial period, the final allocation of purchase price has not been completed.

The Group's material investment in associate as follow:

			Group	
			2016 S\$'000	2015 S\$'000
Cost			3,000	-
Share of post-acquisition loss			(53)	-
			2,947	-

Name of Company	Country of incorporation	Principal activities	Effective interest of the Company	
			2016 %	2015 %
Held by the Company:				
Octopus Retail Management Pte Ltd	Singapore	Mobile Point-of-sale solutions provider for retails	30%	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

17. INVESTMENT IN AN ASSOCIATE (CONT'D)

The summarised financial information in respect of Octopus Retail Management Pte Ltd, based on its FRS financial statements and a reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

Summarised balance sheet

	As at 31 December 2016 S\$'000
Octopus Retail Management	
Current assets	3,197
Non-current asset	7,021
Total assets	10,218
Current liabilities	395
Total liabilities	395
Net assets	9,823
Proportion of the Group's ownership	30%
Group's share on net assets	2,947

Summarised statement of comprehensive income

	2016 S\$'000
Octopus Retail Management	
Revenue	355
Profit after tax	(279)
Other comprehensive income	–
Total comprehensive income	(279)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

18. LONG-TERM INVESTMENTS

	Group	
	2016 S\$'000	2015 S\$'000
Long-term investments:		
Available-for-sale financial assets		
– Unquoted equity	8,849	6,353
– Unquoted investment fund	3,022	2,118
– Quoted equity	2,044	–
	13,915	8,471
Held-to-maturity financial asset		
– Unquoted convertible note	6,695	–
	20,610	8,471

The held-to-maturity financial asset relates to investment in a mezzanine financing amounting to US\$5.0 million with a coupon rate of 5% per annum and matures in August 2018.

19. INVENTORIES

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Balance sheet:				
Handsets	21,952	50,388	–	–
Accessories	1,020	1,124	121	39
Total inventories at the lower of cost and net realisable value	22,972	51,512	121	39

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

19. INVENTORIES (CONT'D)

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Income statement:				
Inventories recognised as an (gain)/ expense in operating expense is inclusive of the following charge:				
Inventories written-down				
– (Write-back of)/allowance for obsolete inventories	(589)	648	(135)	–
	(589)	648	(135)	–

20. TRADE RECEIVABLES

Trade receivables comprise billed trade receivables, accrued service revenue and accrued handset revenue.

Billed trade receivables are non-interest bearing and are generally on 30 to 90 days terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Billed trade receivables	55,255	56,025	55,255	56,025
Other billed trade receivables	20,357	14,457	13,993	10,083
Accrued handset revenue	87,104	91,135	87,104	91,135
Accrued service revenue	14,883	18,703	14,884	18,703
	177,599	180,320	171,236	175,946
Allowance for doubtful debts	(12,032)	(14,415)	(11,877)	(14,258)
	165,567	165,905	159,359	161,688

Receivables that are past due but not impaired

The Group and Company have unsecured trade receivables that are past due at the statement of financial position date but not impaired and the analysis of their ageing at the statement of financial position date is as follows:

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Trade receivables past due:				
30 – 60 days	7,518	8,620	7,383	8,428
61 – 90 days	4,535	3,143	3,729	3,059
More than 90 days	10,449	4,386	10,069	4,194
	22,502	16,149	21,181	15,681

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

20. TRADE RECEIVABLES (CONT'D)

Receivables that are impaired

The Group's and Company's trade receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record impairment are as follows:

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Trade receivables – gross amount	18,494	22,045	18,445	21,863
Less: Allowance for doubtful debts	(12,032)	(14,415)	(11,877)	(14,258)
	6,462	7,630	6,568	7,605
Movement in allowance accounts:				
Balance at beginning of financial year	14,415	14,944	14,258	14,944
Allowance charge for the year (Note 5)	9,767	10,551	9,769	10,394
Written-off	(12,150)	(11,080)	(12,150)	(11,080)
Balance at end of financial year	12,032	14,415	11,877	14,258

21. OTHER RECEIVABLES AND DEPOSITS

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Deposits	6,039	6,093	4,290	4,288
Staff loans (Note 14)	109	81	109	81
Other receivables	7,942	14,307	5,133	10,671
	14,090	20,481	9,532	15,040

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Cash and bank balances	11,016	9,973	10,122	9,189

Cash at banks earns interest at floating rates offered by short-term money market at 0.30% to 0.95% (2015: 0.31% to 0.82%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

22. CASH AND CASH EQUIVALENTS (CONT'D)

Cash at bank denominated in foreign currencies at 31 December are as follows:

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
United States Dollar	6,212	4,679	6,155	4,638
Euro	102	2,337	102	2,337

23. TRADE PAYABLES AND ACCRUALS

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Trade payables	91,448	67,336	49,232	35,955
Accrued operating expenses	47,773	48,465	44,950	45,579
Accrued capital expenditure	20,211	24,246	19,992	23,898
Interest payable	710	459	710	459
Directors' fees payable	905	858	905	858
Other payables	4,436	4,164	4,031	3,956
	165,483	145,528	119,820	110,705

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

24. BORROWINGS

	Group and Company	
	2016 S\$'000	2015 S\$'000
Current:		
Short term bank loan	151,000	103,800
Current portion of long term bank loan	–	250,000
Non-current:		
Long term bank loan	250,000	–
	401,000	353,800

As at 31 December 2016, the S\$151,000,000 (2015: S\$103,800,000) short-term bank loan was unsecured and bears interest rate at 1.06% (2015: 1.38% to 1.61%) per annum. The S\$250,000,000 fixed rate long term bank loan is unsecured, renewed for five years maturing 23 May 2021 and bears an effective interest rate of 2.65 % (2015: 1.59%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

25. SHARE CAPITAL AND TREASURY SHARES

a) *Share capital*

	Group and Company S\$'000
Issued and fully-paid:	
Balance as at 1 January 2015	
931,327,282 ordinary shares	200,589
Issued during the financial year	
5,860,500 ordinary shares for cash on exercise of employee share options	16,497
Balance as at 31 December 2015 and 1 January 2016	
937,187,782 ordinary shares	217,086
Less: 7,215,000 treasury shares purchased through on the Singapore exchange (285,000 treasury shares purchased and issued during the year)	
Issued during the financial year	
50,000 shares capital issued	94
Balance as at 31 December 2016	
930,022,782 ordinary shares	217,180

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

The Company has employee share option schemes (see Note 29) under which options to subscribe for the Company's ordinary shares may have been granted to employees (including executive director) and non-executive directors of the Group.

b) *Treasury shares*

Treasury shares relate to ordinary shares of the Company that are held by the Company. The Company acquired 7,500,000 (2015: nil) shares in the Company through purchases on the Singapore Exchange during the financial year. The total amount paid to acquire the shares was S\$19,328,000 (2015: nil) and this was presented as a component within shareholders' equity.

	Group and Company			
	2016		2015	
	'000	S\$'000	'000	S\$'000
Purchased from open market	7,500	19,328	–	–
Reissued pursuant to employee share option plans:				
– For cash on exercise on employee share options	(285)	(657)	–	–
– Loss transferred to share option reserve	–	(64)	–	–
Issued to employee as exercise of share option	(285)	(721)	–	–
	7,215	18,607	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

26. OTHER RESERVES

(a) *Share option reserve*

Share option reserve represents the equity-settled share options granted to employees (Note 29). The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and is reduced by the expiry or exercise of the share options.

(b) *Fair value adjustment reserve*

Fair value adjustment reserve represents the cumulative fair value changes, net of tax, of available-for-sale financial assets until they are disposed off or impaired.

27. RELATED PARTY TRANSACTIONS

Sale and purchase of services

In addition to the related party information disclosed elsewhere in the financial statements, the following were significant transactions entered into by the Group and the Company with related parties at rates agreed between the parties during the financial year:

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
<i>Substantial shareholders and their subsidiaries</i>				
Telecommunications services rendered	13,738	14,636	13,721	14,311
Telecommunications services received	(17,110)	(17,692)	(17,108)	(17,691)
Rental and maintenance services received	(4,880)	(4,380)	(2,266)	(1,453)

28. COMMITMENTS

(a) *Capital commitments*

Capital expenditure contracted for as at the statement of financial position date but not recognised in the financial statements are as follows:

	Group and Company	
	2016 S\$'000	2015 S\$'000
Capital commitments	40,495	77,623

Capital commitments contracted in 2015 included S\$64.0 million commitment for the 4G Spectrum rights. The amount was paid during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

28. COMMITMENTS (CONT'D)

(b) *Operating lease commitments*

Rental expenses (principally for land, offices, retail outlets, service centres and base stations) under operating leases were S\$29,601,000 and S\$29,888,000 for the financial years ended 31 December 2016 and 2015 respectively.

The Group leases various properties under operating lease agreements. These leases have varying terms, escalation clauses and renewal rights. The future minimum lease payments are as follows:

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Not later than one year	13,225	13,343	8,552	7,524
Later than one year but not later than five years	13,280	14,959	10,879	9,010
Later than five years	1,366	2,242	1,366	2,242
	27,871	30,544	20,797	18,776

29. SHARE OPTIONS AND SHARE PLANS OF THE COMPANY

(a) *Share options*

The Company has 2 employee share option schemes for granting of non-transferable options to employees (including executive director) and non-executive directors of the Company and its subsidiaries.

- (i) M1 Share Option Scheme 2002 (the 2002 Scheme) which was approved by shareholders on 8 November 2002. The 2002 Scheme had expired on 7 November 2012. Options already granted under the 2002 Scheme remain valid and exercisable until the end of the relevant exercise period; and
- (ii) M1 Share Option Scheme 2013 (the 2013 Scheme), for granting of non-transferable share options to employees (including executive director) and non-executive directors of the Company and its subsidiaries was adopted and approved by shareholders in Annual General Meeting on 5 April 2013.

The 2013 scheme was terminated by shareholders in Annual General Meeting on 6 April 2016. It was replaced by the M1 Share plan 2016 (2016 Plan) which was adopted and approved by shareholders in the same general meeting. Options already granted under the 2013 Scheme remain valid and exercisable until the end of the relevant exercise period.

The Remuneration Committee (Committee) is responsible for administering the 2002 Scheme and 2013 Scheme (collectively, the Schemes). The Remuneration Committee members are Mr Moses Lee Kim Poo (Chairman), Mr Choo Chiau Beng, Mr Chow Kok Kee, Mr Low Huan Ping and Mr Alan Ow Soon Sian. The majority of the Committee comprises of independent directors, including the Committee Chairman.

NOTES TO THE FINANCIAL STATEMENTS

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29. SHARE OPTIONS AND SHARE PLANS OF THE COMPANY (CONT'D)

(a) *Share options (cont'd)*

Under the Schemes, options granted have a term of 5 or 10 years from the date of grant for non-executive directors and employees (including executive director) respectively.

The subscription price for each ordinary share in respect of which an option is exercisable shall be determined by the Committee in its absolute discretion, on the date of grant to be either:

- (i) at a price equal to the average of the last dealt prices of the Company's shares on the Singapore Exchange Securities Trading Limited over the five consecutive trading days immediately preceding the date of grant of that option (the Market Price) or such higher price as may be determined by the Committee; or
- (ii) at a price, which is set at a discount to the Market Price provided that the maximum discount for any option shall not exceed 20% of the Market Price in respect of that option.

Information with respect to the number of options granted under the Schemes is as follows:

Date of grant	Balance as at 1 January 2016 or date of grant	Exercised	Expired/ cancelled*	Balance as at 31 December 2016	Subscription price
2002 Scheme					
2 February 2006	660,000	(50,000)	(610,000)	–	S\$2.21
6 February 2007	130,000	(10,000)	–	120,000	S\$2.17
11 February 2008	250,000	(95,000)	–	155,000	S\$1.90
2 February 2009	115,000	–	–	115,000	S\$1.60
3 February 2010	298,000	–	–	298,000	S\$2.04
7 February 2011	1,851,700	(125,000)	–	1,726,700	S\$2.44
30 January 2012	3,193,000	(55,000)	–	3,138,000	S\$2.43
2013 Scheme					
2 May 2013	6,419,000	–	(140,000)	6,279,000	S\$3.24
23 January 2014	7,776,000	–	(280,000)	7,496,000	S\$3.31
22 January 2015	9,130,000	–	(450,000)	8,680,000	S\$3.64
22 January 2016	9,500,000	–	(300,000)	9,200,000	S\$2.48
	39,322,700	(335,000)	(1,780,000)	37,207,700	

* Cancelled when staff resigned from the Company

The above options will vest over a period of three years from the date of grant and may be exercisable for a period commencing after the first anniversary of the date of grant and expiring on the 10th anniversary of the date of grant.

The weighted average fair value of options granted during the financial year was S\$0.11 (2015: S\$0.25).

The weighted average share price at the date of exercise of the options during the financial year was S\$2.48 (2015: S\$3.64).

The weighted average remaining contractual life for options outstanding at the end of the financial year is 7.2 years (2015: 7.4 years).

NOTES TO THE FINANCIAL STATEMENTS

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29. SHARE OPTIONS AND SHARE PLANS OF THE COMPANY (CONT'D)

(a) *Share options (cont'd)*

Information on relevant participants under the Schemes is as follows:

Name of employee	Options granted during financial year	Aggregate options granted since commencement of Schemes to end of financial year	Aggregate options exercised since commencement of Schemes to end of financial year	Aggregate options expired since commencement of Schemes to end of financial year	Aggregate options outstanding at end of financial year	Subscription price
Karen Kooi Lee Wah (Chief Executive Officer)	800,000	10,115,000	(5,049,300)	(400,000)	4,665,700	S\$1.25 - S\$3.64

The fair value of the share options as at the date of grant is computed using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The inputs to the model for all grants not vested for the years ended 31 December 2016 and 31 December 2015 are shown below:

Date of grant	22-Jan-16	22-Jan-15	23-Jan-14	2-May-13	30-Jan-12	7-Feb-11	15-Jun-10
Dividend Yield (%)	6.59	5.07	6.09	4.32	5.88	7.14	6.31
Expected Volatility (%)	19.00	17.00	17.00	16.00	27.00	28.00	29.00
Risk-free interest rate (%)	1.58	0.71	0.33	0.33	0.30	1.03	0.55
Expected life of option (years)	3.30	3.10	3.10	3.10	3.10	3.10	3.10
Share price (S\$)	2.32	3.73	3.45	3.38	2.43	2.45	2.13
Exercise price (S\$)	2.48	3.64	3.31	3.24	2.43	2.44	2.12

The expected life of the option is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option were incorporated into the measurement of fair value.

The 2002 Scheme was approved by shareholders on 8 November 2002. The 2002 Scheme had expired on 7 November 2012. Options already granted under the 2002 Scheme remain valid and exercisable until the end of the relevant exercise period.

The 2013 Scheme was approved by shareholders on 5 April 2013 and was terminated by shareholders in Annual General Meeting on 6 April 2016. It was replaced by the M1 Share Plan (2016 Plan) which was adopted and approved by shareholders in the same general meeting. Options already granted under the 2013 Scheme remain valid and exercisable until the end of the relevant exercise period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

29. SHARE OPTIONS AND SHARE PLANS OF THE COMPANY (CONT'D)

(b) *Share plan*

The M1 Share Plan 2016 (2016 Plan) was approved by shareholders in Annual General Meeting on 6 April 2016.

Under the 2016 Plan, the aggregate number of shares which are fully paid to be finally awarded to the participants free of charge will be based on the achievement of certain predetermined performance targets and conditions as determined by the Remuneration Committee at the end of the performance period (Final Award).

The Final Award varies depending on the level of achievement of the pre-determined targets. An achievement factor will be applied to the Provisional Award to determine the final number of shares to be awarded which is capped at 1.2 times of the grant.

Pre-determined targets are set by the Remuneration Committee at their absolute discretion for the performance conditions to be met over the performance period. The targets set are based on the achievement of Profit After Tax and Total Shareholder Return.

The shares which are the subject of the awards will be released to a participant after the relevant vesting period from 2018 to 2020 after meeting the time-based service conditions where participant has served the Company or, as the case may be, a relevant associate, for a specified number of years. 30% of the award will be released and vested in 2018 and 2019 while the remaining 40% of the award will be released and vested in 2020.

All of the 2016 Plan shares will be released to participants at the end of the three-year vesting period.

The number of final awards of shares, pursuant to the 2016 Plan granted was up to 854,400 shares during the financial year. The aggregate number of shares to be finally awarded to the participants will be based on the achievement of certain predetermined performance targets and conditions as determined by the Remuneration Committee or otherwise in accordance to the rules of the 2016 Plan.

At the end of the year, there were up to 854,400 shares provisional award unvested under the 2016 Plan as follows:

Provisional share award

	At beginning of financial year	Provisional awards granted	At end of financial year
Date of grant			
1 August 2016	–	Up to 854,400	Up to 854,400

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29. SHARE OPTIONS AND SHARE PLANS OF THE COMPANY (CONT'D)

(b) *Share plan (cont'd)*

The information on director participating in the 2016 Plan is as follows:

Name of director	At beginning of financial year	Provisional awards granted	At end of financial year
Karen Kooi Lee Wah	–	Up to 60,000	Up to 60,000

Since the commencement of the 2016 Share Plan till the end of the financial year:

- No awards have been granted to the controlling shareholders of the Company and their associates
- No participant other than the director mentioned above has received 5% or more of the total awards available under the plans
- No awards have been granted to other directors of the holding company and its subsidiaries

On 1 February 2017, the Company had granted the Final Award for performance period ended 2016. 295,700 shares were granted, which includes 21,000 shares granted to Karen Kooi Lee Wah (Director/ Chief Executive Officer).

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company are exposed to financial risks arising from operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk, foreign currency risk and market price risk. The Group's risk management strategy aims to minimise the adverse effects of financial risk on the financial performance of the Group. There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's credit risk is mitigated by its combination of cash and credit sales. For credit sales, the Group has no significant concentration of credit risk from trade receivables due to its diverse customer base. Credit risk is managed through credit checks, credit reviews and monitoring procedures that include a formal automated collection process.

The Group's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as of 31 December 2016 in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the statement of financial position.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Group. Cash and short-term deposits, that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Information regarding financial assets that are either past due or impaired is disclosed in Note 20.

NOTES TO THE FINANCIAL STATEMENTS

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

Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group relies on its internal working capital and bank borrowings to fund most of its operating and investing activities. There are sufficient revolving credit facilities available to meet short term funding requirements.

Analysis of financial instruments by remaining contractual maturities

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

	1 year or less S\$'000	1 to 5 years S\$'000	> 5 years S\$'000	No maturity date S\$'000	Total S\$'000
2016					
Group					
Financial assets					
Trade and other receivables	179,657	331	–	–	179,988
Due from related parties	1,374	–	–	–	1,374
Cash and cash equivalents	11,016	–	–	–	11,016
Long-term investments	–	6,695	–	13,915	20,610
Total undiscounted financial assets	192,047	7,026	–	13,915	212,988
Financial liabilities					
Trade payables and accruals	163,847	–	–	–	163,847
Due to related parties	465	–	–	–	465
Borrowings	151,057	279,114	–	–	430,171
Total undiscounted financial liabilities	315,369	279,114	–	–	594,483
Total net undiscounted financial (liabilities)/assets	(123,322)	(272,088)	–	13,915	(381,495)
Company					
Financial assets					
Trade and other receivables	168,891	331	–	–	169,222
Due from related parties and subsidiaries	1,372	–	40,207	–	41,579
Cash and cash equivalents	10,122	–	–	–	10,122
Total undiscounted financial assets	180,385	331	40,207	–	220,923
Financial liabilities					
Trade payables and accruals	116,675	–	–	–	116,675
Due to related parties and subsidiaries	55,146	–	–	–	55,146
Borrowings	151,057	279,114	–	–	430,171
Total undiscounted financial liabilities	322,878	279,114	–	–	601,992
Total net undiscounted financial (liabilities)/assets	(142,493)	(278,783)	40,207	–	(381,069)

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

Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities (cont'd)

	1 year or less S\$'000	1 to 5 years S\$'000	> 5 years S\$'000	No maturity date S\$'000	Total S\$'000
2015					
Group					
Financial assets					
Trade and other receivables	186,386	187	–	–	186,573
Due from related parties	235	–	–	–	235
Cash and cash equivalents	9,973	–	–	–	9,973
Long-term investments	–	–	–	8,471	8,471
Total undiscounted financial assets	196,594	187	–	8,471	205,252
Financial liabilities					
Trade payables and accruals	143,020	–	–	–	143,020
Due to related parties	187	–	–	–	187
Borrowings	355,414	–	–	–	355,414
Total undiscounted financial liabilities	498,621	–	–	–	498,621
Total net undiscounted financial (liabilities)/assets	(302,027)	187	–	8,471	(293,369)
Company					
Financial assets					
Trade and other receivables	176,728	187	–	–	176,915
Due from related parties and subsidiaries	692	–	25,401	–	26,093
Cash and cash equivalents	9,189	–	–	–	9,189
Total undiscounted financial assets	186,609	187	25,401	–	212,197
Financial liabilities					
Trade payables and accruals	106,238	–	–	–	106,238
Due to related parties and subsidiaries	116	–	–	–	116
Borrowings	355,414	–	–	–	355,414
Total undiscounted financial liabilities	461,768	–	–	–	461,768
Total net undiscounted financial (liabilities)/assets	(275,159)	187	25,401	–	(249,571)

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises from the Group's short-term and long-term debt obligation. The Group's policy is to manage its interest cost using a mix of variable and fixed rate debts.

As at 31 December 2016, the Group's long term borrowing is at fixed rate of interest. The Group's short-term borrowings are at market interest rates.

Sensitivity analysis

An increase of 50 basis point (bps) in the interest rates at the reporting date would have decreased the net income by the amounts shown below:

	Group and Company	
	Decrease 31 December 2016 S\$'000	Decrease 31 December 2015 S\$'000
Variable rate instruments		
Incremental expense to profit and loss	755	519

A weakening of 50 bps interest rate against the above short-term loan balances at the reporting date would have had the same but opposite effect on the net income. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Foreign currency risk

The Group's revenue and expenditure are primarily transacted in Singapore dollars. The currency exposures are mainly limited to Special Drawing Rights (SDR). SDR is an international reserve asset created by International Monetary Fund and is valued on the basis of a basket of key national currencies.

The Group is also exposed to currency translation risk arising from its long term investments denominated in USD and HKD.

The Group and the Company also hold cash and cash equivalents denominated in foreign currencies for working capital purposes as disclosed in Note 22.

Whenever possible, foreign currency transactions are matched to minimise the exposure. The exchange rates are continually monitored and forward contracts are used when appropriate to hedge against exchange rate fluctuations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

Market price risk

Market price risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates). The Group is exposed to equity price risk arising from its investment in quoted equity securities. These quoted equity securities are quoted on the Growth Enterprise Market, set up by the Hong Kong Stock Exchange, and are classified as available-for-sale financial assets. The Group does not have exposure to commodity price risk.

Sensitivity analysis for equity price risk

At the end of the reporting period, if the price per share had been 5% (2015: 5%) higher/lower with all other variables held constant, the Group's other comprehensive income would have been S\$547,000 (2015: nil) higher/lower, arising as a result of an increase/decrease in the share price of investment in quoted equity securities.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group 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 Group 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.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

Assets and liabilities measured at fair value

The following table shows an analysis of each class of assets and liabilities measured at fair value at the end of the reporting period:

	Group	
	2016	
	Quoted prices in active markets for identical assets (Level 1) S\$'000	Significant unobservable inputs (Level 3) S\$'000
		Total S\$'000
Financial assets:		
Available-for-sale financial assets (Note 18)		
– Unquoted equity	–	8,849
– Unquoted investment fund	–	3,022
– Quoted equity	2,044	–
	2,044	11,871
		13,915
	2015	
		Significant unobservable inputs (Level 3) S\$'000
		Total S\$'000
Financial assets:		
Available-for-sale financial assets (Note 18)		
– Unquoted equity		6,353
– Unquoted investment fund		2,118
		8,471
		8,471

Determination of fair value

Level 3 fair value measurements

Unquoted equity instruments are valued based on the net asset value per share as reported by the managers of these funds, less impairment.

Financial instruments whose carrying amount approximate fair value

Management has determined that the carrying amounts of current trade receivables, other receivables, due from related parties, cash and cash equivalents, creditors and due to related parties, based on their notional amounts, are reasonable approximation of fair values either due to their short-term nature or they are floating rate instruments that are re-priced to market rates on or near the statement of financial position date.

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31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

Determination of fair value (cont'd)

Financial instrument by classes that is not carried at fair value and whose carrying amount is not reasonable approximation of fair value

The fair value of financial liability by classes that is not carried at fair value and whose carrying amount is not reasonable approximation of fair value is as follows:

	Group and Company			
	2016		2015	
	Carrying amount S\$'000	Fair value S\$'000	Carrying amount S\$'000	Fair value S\$'000
Financial liability:				
– Fixed rate bank loan	250,000	247,208	250,000	250,000

The fair value is determined using market observable inputs such as interest forward rates (Level 2 of the fair value hierarchy).

32. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table shows a comparison by category of carrying amounts of the Group's and Company's financial assets and liabilities at the statement of financial position date:

	S\$'000
Group	
31 December 2016	
Assets	
Available-for-sale financial assets:	
Long-term investments	13,915
Held-to-maturity financial asset:	
Unquoted convertible note	6,695
Loans and receivables:	
Staff loans	440
Trade receivables	165,567
Deposits	6,039
Other receivables	7,942
Due from related parties	1,374
Cash and cash equivalents	11,016
	192,378

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32. CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONT'D)

	S\$'000
Group	
31 December 2016	
Liabilities	
Liabilities at amortised cost:	
Trade payables and accruals	163,847
Due to related parties	465
Borrowings	401,000
	565,312

	S\$'000
Group	
31 December 2015	
Assets	
Available-for-sale financial assets:	
Long-term investments	8,471
Loans and receivables:	
Staff loans	268
Trade receivables	165,905
Deposits	6,093
Other receivables	14,307
Due from related parties	235
Cash and cash equivalents	9,973
	196,781

	S\$'000
Group	
31 December 2015	
Liabilities	
Liabilities at amortised cost:	
Trade payables and accruals	143,020
Due to related parties	187
Borrowings	353,800
	497,007

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

32. CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONT'D)

	S\$'000
Company	
31 December 2016	
Assets	
Loans and receivables:	
Staff loans	440
Due from subsidiaries	40,207
Trade receivables	159,359
Deposits	4,290
Other receivable	5,133
Due from related parties and subsidiaries	1,372
Cash and cash equivalents	10,122
	220,923
	S\$'000
Company	
31 December 2016	
Liabilities	
Liabilities at amortised cost:	
Trade payables and accruals	116,675
Due to related parties and subsidiaries	55,146
Borrowings	401,000
	572,821

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32. CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONT'D)

	S\$'000
Company	
31 December 2015	
Assets	
Loans and receivables:	
Staff loans	268
Due from subsidiaries	25,401
Trade receivables	161,688
Deposits	4,288
Other receivables	10,671
Due from related parties and subsidiaries	692
Cash and cash equivalents	9,189
	212,197
	S\$'000
Company	
31 December 2015	
Liabilities	
Liabilities at amortised cost:	
Trade payables and accruals	106,238
Due to related parties and subsidiaries	116
Borrowings	353,800
	460,154

NOTES TO THE FINANCIAL STATEMENTS

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33. CAPITAL MANAGEMENT

The objective of the Group's capital management policy is to provide capital to support business requirements and to take advantage of business opportunities that might arise, so as to enhance shareholder value. With prudent capital management, the Group aims to maintain a sustainable dividend payout ratio.

The capital structure of the Group consists of net debts (borrowings less cash and cash equivalents) and equity attributable to the owners of the Group and the Company.

There was no change in the Group's approach to capital management during the year.

	Group		Company	
	2016 S\$'000	2015 S\$'000	2016 S\$'000	2015 S\$'000
Borrowings				
– Current	151,000	353,800	151,000	353,800
– Non-current	250,000	–	250,000	–
Less: Cash and cash equivalents	(11,016)	(9,973)	(10,122)	(9,189)
Net debts	389,984	343,827	390,878	344,611
Equity	403,413	413,213	358,893	385,228

34. DIVIDENDS

	Group and Company	
	2016 S\$'000	2015 S\$'000
Declared and paid during the financial year:		
Final – the previous year		
8.3 cents (2015: 11.9 cents) per ordinary share (one-tier tax)	77,168	111,434
Interim – the current year		
7.0 cents (2015: 7.0 cents) per ordinary share (one-tier tax)	65,093	65,590
	142,261	177,024
Proposed but not recognised as a liability as at 31 December:		
Final		
5.9 cents (2015: 8.3 cents) per ordinary share (one-tier tax)	54,871	77,787

The directors propose a final dividend of 5.9 cents per ordinary share (one-tier tax) in respect of the financial year ended 31 December 2016 for approval by shareholders at the forthcoming Annual General Meeting of the Company.

35. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 27 February 2017.