ANNUAL REPORT 2011

*"78 years' old Kapok Tree… Singapore Botanical Gardens"*

# BUTTRESSED FOR GROWTH

**Zicom Group Limited**

ABN 62 009 816 871 • ASX Code : ZGL

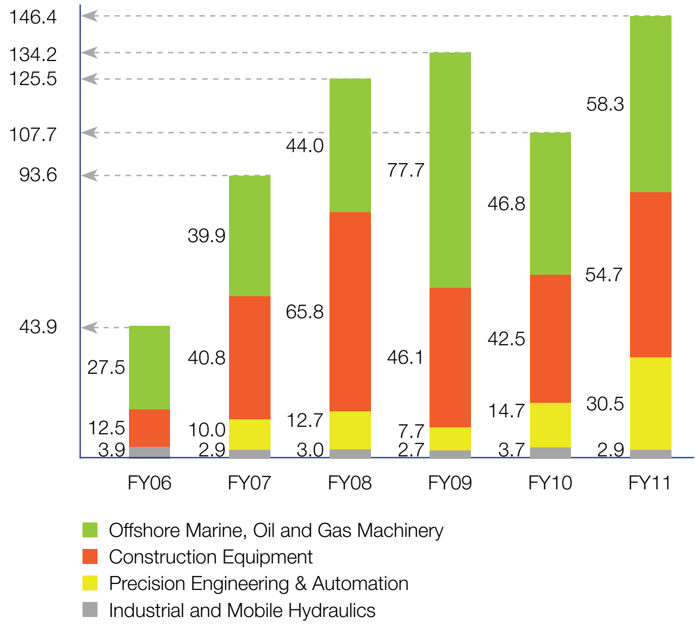
# Buttressed For Growth

## Focused Organic Growth

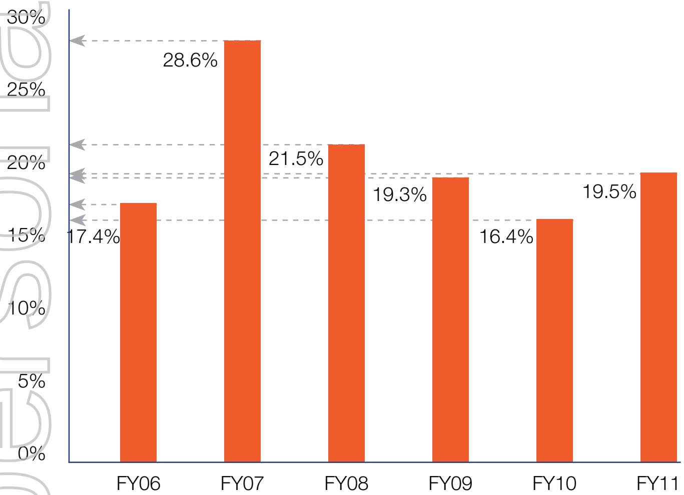
## Investment In Disruptive Technologies

# Highlights

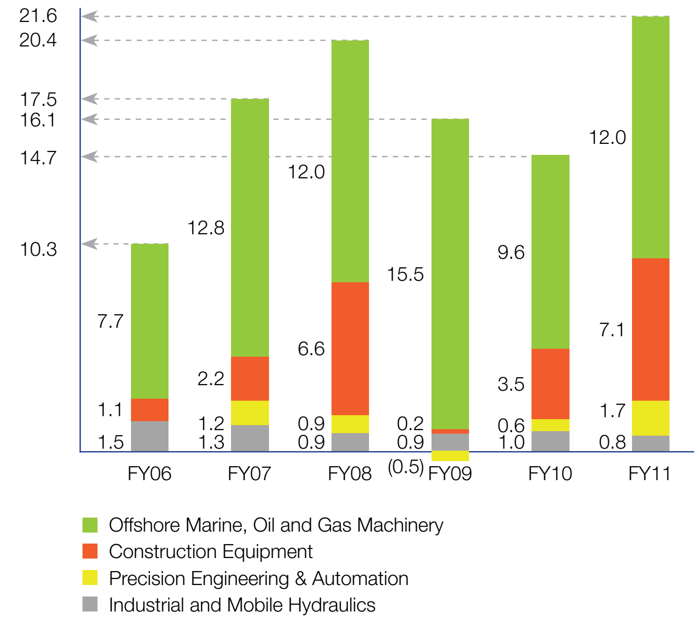
**SEGMENTAL REVENUE** (S$'million)




**RETURN ON EQUITY**




**SEGMENTAL RESULTS** (S$'million)




# Contents

# Chairman's Message

## Buttressed For Growth

Although the global economic climate continues to be mired in uncertainties, I am pleased to report that the Group achieved record revenue and profits for the year just ended. These results have been achieved from the Group's focused efforts and directions. The Group's focus in continuously growing organic growth and, at the same time creating avenues for horizontal growth, by investing in disruptive technologies from its internal resources has buttressed the Group to achieve sustainable growth into the future.

### Results

The Group achieved an increase of 36% in revenue to S$147.19m (2010: S$108.19m) and an increase of 39% in net profits after tax to S$14.09m (2010: S$10.14m). Earnings per share increased by 37% to Singapore cents 6.62 from 4.82 in the previous year. Returns from equity increased to 19.5% from 16.4%.

The Group's cash position remains strong at S$23.67m at the end of the financial year.

### Prospects

The Group's overall business across all segments performed well. The marine offshore equipment slackened during the second half and will continue to slacken into the next first half year. We are hopeful that the recent strong recovery in demand in deep seas oil rigs globally will drive demand for our equipment in the coming months. As such we believe the slack in the marine offshore will be short. The strong orders received for our oil and gas sector will enable us to pick up the slack in the marine offshore sector.

Although the global uncertainties have been further exacerbated by the Eurozone financial crisis, I am confident that the Group's resilience positions us well to navigate through the challenges ahead.

We remain confident to achieve satisfactory results in the coming years.

### Growth Platform

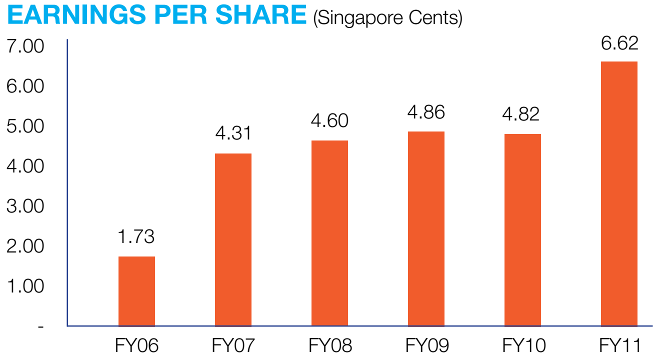
The Group continues to focus strongly on organic growth and invest in product development and productivity. The Group expanded horizontally in the last 18 months by investing in two medical device start-ups and one on thermal bonding of fine pitch flip chips in the semi-conductor industry. All these start-ups have achieved critical milestones towards commercialisation as their technologies have been tested and accepted by world class institutions in USA, Australia, Taiwan, Japan and China. As disruptive technologies, the gestation period in marketing is generally longer. We expect to achieve positive contributions from these start-ups in the financial year 2013 onwards. We are confident that once the momentum in commercialisation gains traction, exponential growth can be triggered.

### Enhancing Shareholders' Value

The Group's share price recovered strongly during the year reflecting a fairer re-rating of our share value. One of our substantial shareholders sold down more than 20m of their shares contributing to the liquidity in the market. Shareholders' spread increased from 1,321 on 30 September 2010 to 2,963 on 15 September 2011. The Group renewed its share buy-back scheme on 1 September 2011 as part of its overall capital management program.

The Group's value proposition to enhance shareholders' value through long term sustainable growth and prudent financial management will continue to be strengthened.

**EARNINGS PER SHARE** (Singapore Cents)




**YEAR CHART**

www.netquote.com.au


### Service Contract

My service contract with the Group has been renewed for another 5 years from 1 July 2011. I have decided to continue to freeze my monthly salary at the 2007 level for the next 5 years with all other benefits, terms and conditions to remain unchanged.

### Appreciation

The Group's record performance would not be possible without the entrepreneurship, diligence and strong commitment of the management of the Group companies for which I am very grateful. I am also grateful for the valuable support and guidance of the board during the year. I take this opportunity to thank all our shareholders for their continuing forbearance and support.

G L Sim
Chairman

# Directors and Company Secretaries



## Executive Directors

**GIOK LAK SIM,** FCPA
Chairman and Group Managing Director, Age 65

*Experience and Expertise*
Appointed to the Board on 5 April 1995. Chairman and Managing Director of Zicom Group Limited and Executive Chairman of all its subsidiaries. Experienced in public accounting, corporate development, financial and industrial management as well as international trade.

Winner of Singapore Ernst & Young Entrepreneur of the Year Award (Industrial Products), 2008.

*Other current directorships and former directorships in last 3 years*
None

*Special responsibilities*
Executive Chairman of all subsidiaries
Chairman of Biobot Surgical Pte Ltd and Curiox Biosystems Pte Ltd
Member of Nomination and Remuneration Committee

*Relevant interests in shares and options as at date of signing the Directors' Report*
74,285,212 ordinary shares

**KOK HWEE SIM,** BSc, MSc
Executive Director, Age 33

*Experience and expertise*
First appointed to the Board as an Alternate Director on 24 July 2006 and made a full director on 21 November 2007. On 5 July 2010, Mr Kok Hwee Sim was re-designated as Executive Director of the Group. Mr Kok Hwee Sim's responsibilities for various corporate development work including restructuring, acquisitions, valuation of businesses, and intangibles have been expanded to include other executive responsibilities in the management of the Group's subsidiary, Zicom Private Limited and led the Group's implementation of the Enterprise Resource Planning (ERP) system in integrating the Group's operations. The change in title is to reflect his expanded role in the Group. Son of the Chairman and Managing Director, Mr G L Sim and director of substantial shareholder, SNS Holdings Pte Ltd.

*Other current directorships and former directorships in last 3 years*
None

*Special responsibilities*
Executive Director of Zicom Holdings Pte Ltd and Director of its subsidiaries

*Relevant interests in shares and options as at date of signing the Directors' Report*
1,062,846 ordinary shares and 300,000 options

## Independent Directors

**YIAN POH LIM,** BSc, MSc
Independent Director, Age 65

Experience and expertise

Appointed to the Board on 24 July 2006 and re-appointed to the Board on 12 November 2009. Yian Poh Lim has more than 20 years experience in the banking and finance industry, having worked in major international banks including Citibank, Banque Nationale de Paris (now known as BNP Paribas) and Arab Banking Corporation, where he held regional responsibilities. He possesses a wealth of experience and extensive network of contacts both in Singapore and the region. In 1993, he left as General Manager of Arab Banking Corporation, Singapore Branch to set up Yian Poh Associates, a financial consultancy and investment firm. He has been an Honorary Commercial Advisor to The Administrative Committee of Jiaxing Economic Development Zone, China since 2000. In April 2011, he was appointed for a period of 2 years as a member of the Consultative Panel of the Executive Committee of the Singapore Food Manufacturers' Association. He obtained his Bachelor of Science degree from Nanyang University, Singapore in 1969 and his Master of Science degree from the University of Hull, England in 1972.

*Other current directorships and former directorships in last 3 years*
Independent Director of Casa Holdings Limited (appointed 4 November 2008)
Independent Director of TTJ Holdings Limited (appointed 5 July 1996)

*Special responsibilities*
Chairman of Nomination and Remuneration Committee
Member of Audit Committee

*Relevant interests in shares and options as at date of signing the Directors' Report*
438,000 ordinary shares and 75,000 options

**FRANK LEONG YEE YEW,** MBA, ACA, FCPA
Independent Director, Age 68

*Experience and expertise*
Appointed to the Board on 24 July 2006. Extensive experience in auditing, financial management and corporate secretarial work, having practised as a partner in an audit firm and worked as a company secretary, finance manager and financial controller in a leading property development company and involved in acquisitions and major developments.

*Other current directorships and former directorships in last 3 years*
Independent Director of TTJ Holdings Limited (appointed 11 January 2010)

*Special responsibilities*
Member of Nomination and Remuneration Committee
Member of Audit Committee

*Relevant interests in shares and options as at date of signing the Directors' Report*
258,750 ordinary shares and 75,000 options

**IAN ROBERT MILLARD,** FCA, FAICD
Independent Director, Age 72

*Experience and expertise*
Appointed to the Board on 23 November 2006. Extensive experience in public accounting and corporate secretarial work. Fellow of the Institute of Chartered Accountants with 30 years as a partner in major accounting firms in Queensland and Fellow of the Australian Institute of Company Directors.

*Other current directorships and former directorships in last 3 years*
None

*Special responsibilities*
Chairman of Audit Committee

*Relevant interests in shares and options as at date of signing the Directors' Report*
542,250 ordinary shares and 75,000 options

**SHAW PAO SZE**
Independent Director, Age 67

*Experience and expertise*
Appointed to the Board on 19 February 2010. Mr Shaw Pao Sze holds a Master Foreign-Going Certificate of Competency and has extensive experience in maritime industry from managing liner and ship chartering services, and corporate planning in one of the world's largest shipping lines and in consultancy services for transport engineering, maritime and logistics planning for infrastructure projects.

*Other current directorships and former directorships in last 3 years*
Synergy Metals Ltd (Australia) (appointed 15 October 2010)
Freight Links Express Holdings (Australia) Ltd (appointed on 6 December 1996, resigned on 16 December 2009)

*Special responsibilities*
None

*Relevant interests in shares and options as at date of signing the Directors' Report*
30,000 options

## Alternate Director

**KOK YEW SIM,** BSc
Alternate Director to Mr Kok Hwee Sim, Age 31

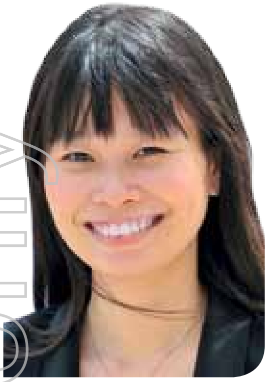
*Experience and expertise*
Appointed as Alternate Director to Mr Kok Hwee Sim on 5 July 2010. Mr Sim is the Chief Executive Officer of Sys-Mac Automation Engineering Pte Ltd (SMAE) and is responsible for SMAE's overall administration and management of its business and operations. Mr Sim graduated with a Bachelor degree in Electrical and Electronics Engineering from the University of Michigan with Honors (Summa Cum Laude). He is the second son of Mr G L Sim and a younger brother of Mr K H Sim.

*Other current directorships and former directorships in last 3 years*
None

*Special responsibilities*
Alternate Director to Mr Kok Hwee Sim in Zicom Holdings Pte Ltd
Director of Sys-Mac Automation Engineering Pte Ltd and its subsidiaries

*Relevant interests in shares and options as at date of signing the Directors' Report*
800,717 ordinary shares and 300,000 options

## Company Secretaries



**LIM BEE CHUN, JENNY,** FCCA
Joint Company Secretary, Age 38

*Experience and expertise*
Ms Jenny Lim has been the Group's Financial Controller since 2005. She is a qualified accountant and Fellow of the Association of Chartered Certified Accountants from the United Kingdom since 1998. Ms Lim has over 10 years of audit and tax experience in an international public accounting firm prior to joining the Group.

*Other current directorships and former directorships in last 3 years*
None

*Special responsibilities*
Director of Zicom Private Limited
Joint Company Secretary of all subsidiaries in Singapore except for MTA-Sysmac Automation Pte Ltd
Joint Company Secretary of Biobot Surgical Pte Ltd and Curiox Biosystems Pte Ltd

*Relevant interests in shares and options as at date of signing the Directors' Report*
513,623 ordinary shares and 250,000 options

**SURENDRA KUMAR,** CPA
Joint Company Secretary, Age 51

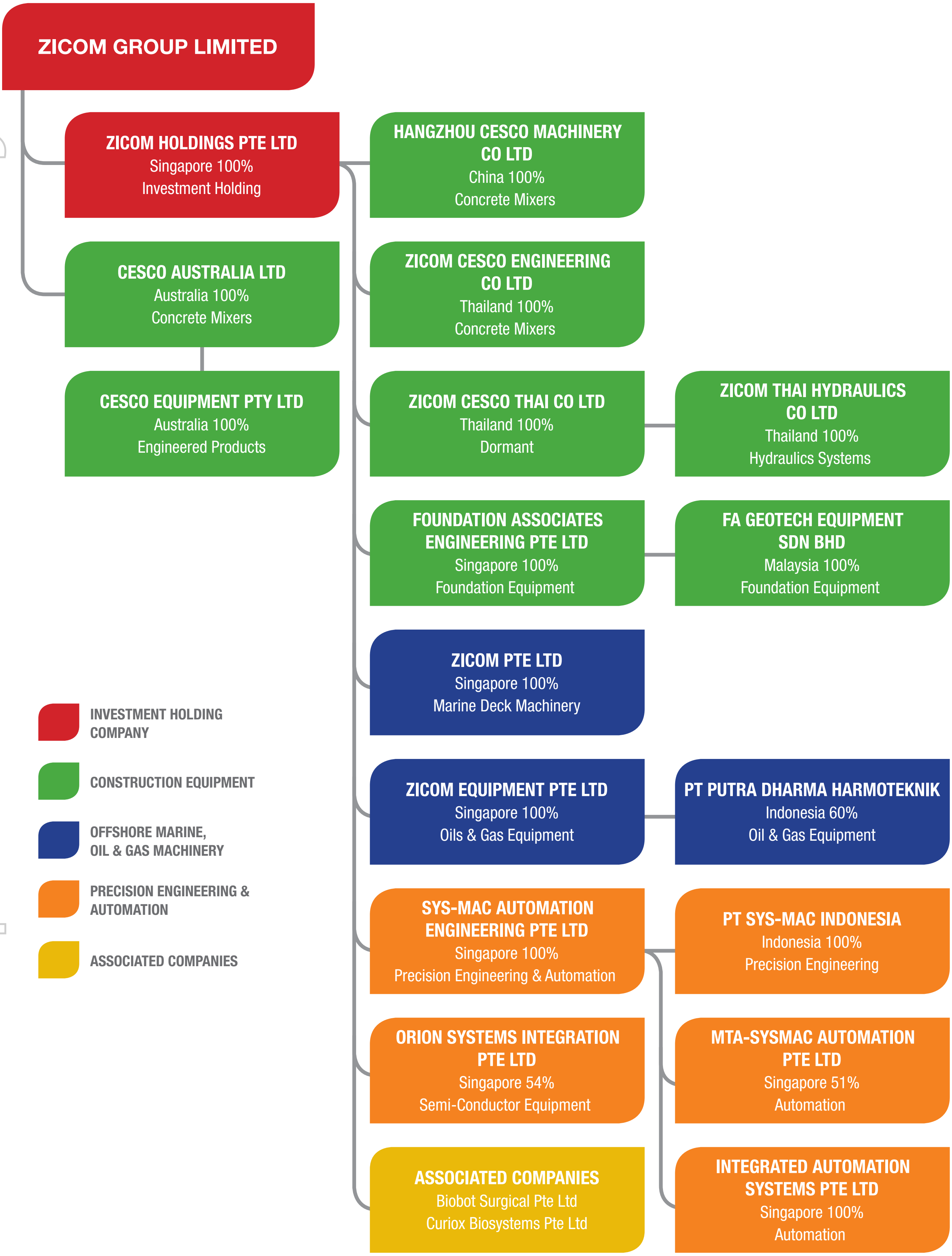
Mr Kumar is the Finance Manager of Cesco Australia Limited and holds a Bachelor degree in Commerce from Auckland University and is a Certified Practising Accountant. He has had 30 years of experiences in auditing, industrial and management accounting prior to joining the Group in 2008.

*Other current directorships and former directorships in last 3 years*
None

*Special responsibilities*
Director of Cesco Equipment Pty Limited
Company Secretary of Cesco Australia Limited and Cesco Equipment Pty Limited

*Relevant interests in shares and options as at date of signing the Directors' Report*
15,000 ordinary shares and 100,000 options

# Corporate Chart



# Key Management



## Singapore

### ZICOM PRIVATE LIMITED
**JOINT MANAGING DIRECTORS**
Juat Lim Sim
Hung Seah Tang
**EXECUTIVE DIRECTORS**
Kok Hwee Sim
Jenny Lim Bee Chun
Hong Jun Zhang
Juat Khiang Sim

### ZICOM EQUIPMENT PTE LTD
**MANAGING DIRECTOR**
Rashed Choudhury
**EXECUTIVE DIRECTOR**
Kim Chee Chia

### FOUNDATION ASSOCIATES ENGINEERING PTE LTD
**MANAGING DIRECTOR**
Jimmy Teoh Guan Hooi
**EXECUTIVE DIRECTOR**
Peck Hua Ng

### SYS-MAC AUTOMATION ENGINEERING PTE LTD
**MANAGING DIRECTOR**
Juat Koon Sim
**EXECUTIVE DIRECTORS**
Kok Yew Sim
David Loh Chin Woon
Tony Low Boon Koon

### MTA-SYSMAC AUTOMATION PTE LTD
**MANAGING DIRECTOR**
Juat Koon Sim
**EXECUTIVE DIRECTORS**
Kok Yew Sim
Tony Low Boon Koon
Bobby Owen Archer
Bryan Raymond Root

### ORION SYSTEMS INTEGRATION PTE LTD
**MANAGING DIRECTOR**
Hung Seah Tang
**EXECUTIVE DIRECTORS**
Amlan Sen
Chin Guan Khaw

## Malaysia

### FA GEOTECH EQUIPMENT SDN BHD
**MANAGING DIRECTOR**
Peck Hua Ng
**EXECUTIVE DIRECTOR**
Teck Meng Liew

## Australia

### CESCO AUSTRALIA LIMITED
**EXECUTIVE DIRECTORS**
Gary Webster
Dewen Liu

### CESCO EQUIPMENT PTY LTD
**EXECUTIVE DIRECTORS**
Gary Webster
Dewen Liu
Surendra Kumar
Rick Pearce

## Thailand

### ZICOM CESCO ENGINEERING CO LTD
**MANAGING DIRECTOR**
Sammy Ng Siong Teck
**EXECUTIVE DIRECTOR**
Saowaluke Phongchok

### ZICOM THAI HYDRAULICS CO LTD
**MANAGING DIRECTOR**
Sammy Ng Siong Teck
**EXECUTIVE DIRECTOR**
Saowaluke Phongchok

## Indonesia

### PT SYS-MAC INDONESIA
**PRESIDENT DIRECTOR**
Juat Koon Sim
**EXECUTIVE DIRECTORS**
Kok Yew Sim
David Loh Chin Woon
Boon Chye Seah

### PT PUTRA DHARMA HARMOTEKNIK
**PRESIDENT DIRECTOR**
Putra Jandhana
**EXECUTIVE DIRECTORS**
Rashed Choudhury
Kim Chee Chia
Sudarman Sellang

## China

### HANGZHOU CESCO MACHINERY CO LTD
**MANAGING DIRECTOR**
Chin Ming Tan

# Directors' Report 2011

Your directors present their report on the consolidated accounts of Zicom Group Limited for the year ended 30 June 2011.

## Directors

The following persons were directors of Zicom Group Limited during the financial year and up to the date of this report. Directors were in office for this entire period unless otherwise stated.

| | |
|---|---|
| Mr G L Sim | (Chairman and Managing Director) |
| Mr K H Sim | (Executive Director) |
| Mr Y P Lim | (Independent) |
| Mr F Leong | (Independent) |
| Mr I R Millard | (Independent) |
| Mr S P Sze | (Independent) |
| Mr K Y Sim | (Alternate Director to K H Sim, appointed on 5 July 2010) |

## Principal Activities

The Group's principal activities comprise the manufacturing of deck machinery, offshore structures, fluid metering stations, foundation equipment and concrete mixers, precision engineered machinery and services to the offshore marine, oil and gas, construction, electronics, biomedical and agriculture industries.

## Consolidated Results

The Group recorded the following consolidated results during the year as compared with those of previous year:-

| Key Financials | Change (%) | Year ended 30 June 11 (S$ million) | Year ended 30 June 10 (S$ million) |
|---|---|---|---|
| Revenue | +36.0 | 147.19 | 108.19 |
| Earnings before interest, tax, depreciation, & amortisation (EBITDA) | +38.9 | 22.49 | 16.19 |
| Net profits after tax (NPAT) | +39.0 | 14.09 | 10.14 |
| Adjusted net profits after tax excluding non-recurrent items (Adjusted NPAT) | +50.7 | 14.53 | 9.64 |

The adjusted net profits for the full year excluded non-recurrent items of S$405,202 representing the cost of a research project written off. The adjusted full year's results for the previous year excluded S$668,000 of non-recurrent provision for doubtful debts written back and a charge for redundancy costs of S$97,524.

## Dividends

The Group has decided to pay a final dividend of Australian cents 0.55 (2010: Australian cents 0.50) per share for the year just ended. The total dividends for the year just ended totalled 1 Australian cent as compared with 0.85 Australian cents for the previous year amounting to approximately S$2,671,509 (2010: S$2,250,338). The final dividend will be fully paid out of Conduit Foreign Income under the provisions of the Australian Income Tax Act. Accordingly, withholding tax will not apply to non Australian residents.

The record date for the final dividend will be 16 November 2011 and the payment date is 30 November 2011.

## Review of Operations

The Group's consolidated revenue for the full year is S$147.19m as compared with S$108.19m in the previous financial year, an increase of 36.0%. The Group's full year net consolidated profits after tax attributable to members to 30 June 2011 are S$14.09m as compared with S$10.14m in the previous year, an increase of 39.0%.

Net adjusted profits for the full year that excluded non-recurrent items are S$14.53m as compared with S$9.64m in the previous year, an increase of 50.7%.

The net profit after tax to revenue achieved for the full year increased by 0.2% to 9.6% from 9.4% in the previous financial year despite great volatility in currency exchange rates during the year. This has come from strong cost controls and judicious management of our foreign exchange exposure notwithstanding that the US$ had been weakening.

# Directors' Report 2011

Earnings per share increased from Singapore 4.82 cents to 6.62 cents per share an increase of 1.80 cents.

Net tangible assets per share increased from Singapore 28.21 cents to 32.76 cents.

The average rates for currency translation for revenue and expenses are A$1 to S$1.2865 (2010: S$1.2418) and for balance sheet items A$1 to S$1.3245 (2010: S$1.1990).

Return on equity, based on the average of the opening and closing equity, for the year was 19.5% as compared to 16.4% in 2010 and 19.3% in 2009.

The Group's gearing ratio remains at zero same as in previous year. The Group's cash position at the end of the financial year just ended, remained strong with S$23.67m (2010: S$24.99m). This strengthens the Group's resilience and positions it to be able to withstand sudden shocks from a volatile economic environment and enables the Group to take advantage of acquisitions or business opportunities as they arise.

As we progress into the new financial year, we remain optimistic of continuous growth.

## Revenue by Business Segments

The following is an analysis of the segmental revenue :-

| Revenue by Business Segments | Change (%) | Year ended 30 June 11 (S$ million) | Year ended 30 June 10 (S$ million) |
|---|---|---|---|
| Offshore Marine, Oil and Gas Machinery | +24.4 | 58.33 | 46.89 |
| Construction Equipment | +28.9 | 55.23 | 42.86 |
| Precision Engineering & Automation | +103.4 | 30.65 | 15.07 |
| Industrial & Mobile Hydraulics | -19.1 | 3.21 | 3.97 |

## Offshore Marine, Oil & Gas Machinery

We experienced very strong sales in the offshore marine sector, especially during the first half of the year, increasing demand by 24.4% as compared with the previous year. Revenue from this sector slackened in the second half reflecting the consolidation of orders in the years of the global financial crisis.

The Group's orders for deck machinery had been affected by the slack in ship building orders for offshore vessels that continued post global financial crisis. Demand for offshore vessels generally precedes demand for our deck machinery by 1-2 years. We expect to continue with slackened demand for our deck machinery into the next financial year. However, strong world-wide resurgence in demand for offshore rigs particularly for deep seas exploration and production in the last 9 months has increased demand for deep seas offshore vessels. A gradual build-up in enquiry for our deck machinery has emerged. We expect this to gain momentum in the next 12-18 months.

PRC's Rescue & Salvage Fleet Equipped with Zicom Deck Machinery

Gas Fractionation Tower

The slack in our deck machinery was expected to be taken up by the substantial orders for oil and gas turnkey projects in hand. However, delays in implementing these projects within the second half year caused by slow engineering approvals, had caused the contribution from these projects to be pushed into the next financial year. We are confident that in the medium to long term, incremental growth in our offshore marine, oil and gas segment will be maintained. Demand for offshore structures has increased following a slackened period in the last 12 months.

Anchor Handling Winches Being Assembled

## Construction Equipment

Demand for construction equipment has increased by 28.9% in the current year as compared with the previous year.

FAV 44-2000 Vibro Hammer

General construction activities in Australia consolidated last year. Rebuilding activities in Eastern Australia after the floods had not fully taken off. Demand for concrete mixers in Australia was generally flat. We anticipate that the uncertainties in the global economy will continue to affect demand for concrete mixers in Australia. In manufacturing the concrete mixers in Thailand, we have managed to temper cost escalation with economy of scale. Diversification into sale and rental of foundation equipment in collaboration with our Singapore subsidiary has begun to gain traction in the Australian market and has helped contribute revenue towards absorption of fixed overheads to enable the Australian operations to be marginally profitable for the year, notwithstanding a subdued market in Australia. Our Australian subsidiary has further diversified into distribution of gas driven generators and has embarked on development of a waste digester and biogas generator using our concrete mixing technology. We would initially target these products for the Chinese and Australian market.

Demand for our concrete mixers picked up in Thailand and China due to continuing strong growth in the construction market driven by low interest rate and liquidity flushed from governments' economic stimulus programs amidst continuing strong growth in the Asian economies. We anticipate demand to continue in the next 2 years.

The foundation equipment sector achieved a strong increase in its revenue by 26% over the previous year, driving the overall improvement in profits in the construction sector. This has been fuelled by the demand for our equipment in Singapore from increase in government spending on infrastructures, public housing as well as construction in private residences driven by continuing economic growth and low liquidity and exports to regional countries.


Mini Mixer for Inner City operation in Thailand

# Directors' Report 2011

## Precision Engineering & Automation

The precision engineering sector has shown a 103.4% increase in revenue over the previous year. The full year experienced strong recovery in demand from the semi-conductor industry and increase in demand for our automation services. Our recent ISO13485 accreditation has provided us with a competitive advantage in securing more orders for the manufacture of modular or whole units of medical devices. We remain confident that our precision engineering business will continue to grow as we target more customers involved in biomedical devices who partner us not only in co-designing but also to manufacture their products.

Our precision engineering subsidiary has diversified its revenue stream, spanning from semi-conductor equipment to bio-medical devices and general automation services for these industries, to weather economic cycles in each of these sectors. At the same time, we are positioning ourselves to render manufacturing and engineering support to our investments in the various start-ups.

Orion Phoenix 2000 Fine-Chip Thermal Bonder

iSROBOT Mona Lisa Surgical Robot

**Curiox High Throughput Drug Discovery Bioinstrumentation**


HT-200 Washing Machine

HT Microplate

Ink Cartridge Packaging Line

## Industrial & Mobile Hydraulics

This sector is made up of supply of hydraulic system drives and hydraulic services in support of our general core business activities in hydraulic engineering. Changes in the performance in this sector are not expected to be significant to the Group.

Greenpower Gas Driven Generator

## Foreign Exchange Exposure

The Group generally prices its sales in foreign currencies on forward rates. During the full year, we hedged our rates accordingly to ensure our margins were maintained. The net loss attributable to foreign exchange during the current full year is S$129,985 compared with a loss of S$526,708 in the previous year.

Accounting Standard AASB 139 obliges us to fair value our outstanding foreign exchange derivatives at the rates ruling on 30 June 2011. Included in the foreign exchange loss of S$129,985 is a net loss of S$110,148 arising from the valuation of these derivatives as at 30 June 2011.

## Financial Position

The group's financial position has generally improved :-

| Classification | Increase (+) / Decrease (-) S$ million | As at 30 June 11 S$ million | As at 30 June 10 S$ million |
|---|---|---|---|
| Net assets | +13.51 | 80.27 | 66.76 |
| Net working capital | +7.42 | 41.96 | 34.54 |
| Cash in hand and at bank | -1.32 | 23.67 | 24.99 |

## Gearing Ratios

The Group's gearing ratio is 0% at the same ratio as for the year ended 30 June 2010. Gearing ratio has been arrived at by dividing our net interest-bearing debts over total capital.

## Return Per Share

The Group's earnings and net tangible assets per share are as follows: -

| Classification | Increase (+)/ Decrease (-) Singapore Cents | 2011 Singapore Cents | 2010 Singapore Cents |
|---|---|---|---|
| Earnings per share | +1.80 | 6.62 | 4.82 |
| Adjusted earnings per share | +2.24 | 6.82 | 4.58 |

The weighted average shares used to compute basic earnings per share are 212,924,847 for this full year and 210,633,961 shares for the previous full year.

| Classification | Increase Singapore Cents | As at 30 June 11 Singapore Cents | As at 30 June 10 Singapore Cents |
|---|---|---|---|
| NTA per share | +4.55 | 32.76 | 28.21 |

## Capital Expenditure

The Group's forecast of capital expenditure of S$3m in plant and machinery for financial year 2011 has not been spent as our production needs could be satisfied. We are currently upgrading and, where applicable, automate our production jigs in Thailand with expenditure not expected to exceed S$1m. Although we had foreseen to incur over the next 12-18 months an amount of S$1m in capital expenditure for our precision engineering sector to strengthen its competency, we do not anticipate this to be urgent, as our capability is adequate in the coming financial year. We do not foresee any other significant capital investments.

# Directors' Report 2011

## Confirmed Orders

We have a total of S$63.2m (30 Jun 2010: S$73.0m) outstanding confirmed orders in hand as at 30 June 2011. A breakdown of these outstanding orders secured is as follows :-

| | S$ m |
|---|---|
| Offshore Marine, Oil & Gas Machinery | 37.2 |
| Construction Equipment | 6.5 |
| Precision Engineering & Automation | 19.3 |
| Industrial & Mobile Hydraulics | 0.2 |
| **Total** | **S$63.2m** |

Out of the above outstanding orders, S$58.3m are scheduled for delivery in the financial year 2012 and the balance thereafter. Prospects for on-going orders continue to be robust.

## Investments in Start-Ups

Our investments in the 3 start-ups in 2010 had been made entirely from our internal cash resources without external borrowings. All these start-ups have, during the year, generally achieved commercialisation status having obtained relevant regulatory approvals and successfully passed evaluation test runs conducted by potential customers. These ventures possess disruptive technologies. Disruptive technologies generally replace existing technologies or revolutionize the established methodologies adopted by industries. As such, the gestation period for marketing is longer than others as we need to prove our value proposition and to change customers' mind-set. We are confident that contribution from these start-ups could kick off in the financial year 2013. Having reached commercialisation stage, risks in our investments have been mitigated.

Biobot Surgical Pte Ltd in which we have invested 46.67% has secured regulatory approvals for its surgical robots for prostate biopsy from regulatory authorities in Singapore, Australia, the European Union and the USA. Its products are still undergoing clinical evaluation and the unforeseen longer than expected gestation period may necessitate the company having to review its capital requirements and to raise further capital to advance its commercialisation efforts.

Curiox Biosystems Pte Ltd's ("Curiox") technology has passed stringent evaluation tests by two world leading pharmaceutical companies in their drug discovery processes, in the USA and Japan. We hold 32.78% in Curiox at the end of the financial year under review. Curiox has sold 2 units of its bio-instrumentation devices to the USA company and one unit to the Japanese company for real production runs using Curiox's proprietary microplates. We are confident that in the coming months when Curiox's technology proves its value proposition, increased orders will follow. Curiox's proprietary microplates are consumables that contribute to recurring revenue and profitability. We are evaluating setting up a USA presence to strengthen our focus in this market. Meanwhile satisfactory evaluation test has also been carried out with a leading UK pharmaceutical company.

Orion Systems Integration Pte Ltd ("Orion") in which we have invested 54.26%, has sold its flip chip packaging machines to a leading Chinese semi-conductor chip assembler and to another world leader engaged in the semi-conductor chip assembly in the USA. Orion operates from the premises of our precision engineering subsidiary, Sys-Mac Automation Engineering Pte Ltd, so that close collaboration in design and production can be forged. Prospects for sales to other customers are strong. Orion is expected to make profits in the coming financial year. We believe recognition of its patented superior technology in bonding fine pitch flip chips will gain traction and momentum over the next 18 months.

## Strategic Positioning

The past year's global economic situation is one of great challenges. Notwithstanding the global economic uncertainties, the Group has continued to achieve significant growth in both revenue and profits.

The year has been marked with the Eurozone financial crisis that has engulfed Ireland and Greece and may potentially escalate to some other member countries with serious impact not only to the whole Eurozone but to the rest of the world. The political turmoil dubbed the "Arab Spring" movements in the Middle East as well as the recent political polarization in the USA exacerbated these uncertainties. These uncertainties are expected to cast a negative impact on the growth of the global economy. We cannot remain unscathed.

# Directors' Report 2011

In order to weather such volatility and economic uncertainties, the Group has adopted sustainable growth strategies to buttress its growth platform. Organic growth remains our main focus and our key plank. We capitalise on opportunities that position us to achieve horizontal growth by leveraging on our strong cash position. Hence we identified and invested in start-ups that possess disruptive technologies and have synergy with our capabilities. We finance start-ups with internal cash resources without external borrowings and would only increase our gearing for investments or acquisitions in on-going businesses that have existing cash-flows. Such prudent financial policy positions us to withstand sudden unexpected economic shocks and at the same time enables us to increase our investments on start-ups which are affected by longer than expected gestation which otherwise shows strong promises in taking off commercially.

We invest on a long term perspective. During the periods of the global financial crisis from 2007-2009, we invested in production facilities for our core products to improve productivity and capabilities. Product developments and innovation are unceasing. The benefits from this strategy are being felt now.

The Group maintains a strong focus on leadership and succession management programs at all levels in support of the growth strategies.

**Prospects**

Our full year's results reflected the success of our strategic positioning developed over the years. Orders remain robust.

We are therefore confident that notwithstanding the challenges and uncertainties ahead, the Group will continue to achieve satisfactory growth.

**Share Buy-Back Scheme**

The existing share buy-back scheme expires on 31 August 2011. The board has decided to renew the scheme for another one year.

**Environmental Regulations**

The group is subject to environmental regulations under State and Federal legislations. The group holds environmental licences for its manufacturing site in Brisbane. No significant material environmental incidents occurred during the year.

**Meetings of directors**

The number of meetings of the company's board of directors and of each board committee held since the last Annual General Meeting, and the numbers of meetings attended by each director were:

| | | | Meetings of Committees | | | |
|---|---|---|---|---|---|---|
| | Full meetings of directors | | Audit | | Nomination & Remuneration | |
| | A | B | A | B | A | B |
| Giok Lak Sim | 5 | 5 | - | - | 2 | 2 |
| Kok Hwee Sim | 4 | 5 | - | - | - | - |
| Yian Poh Lim | 5 | 5 | 2 | 2 | 2 | 2 |
| Frank Leong Yee Yew | 5 | 5 | 2 | 2 | 2 | 2 |
| Ian R Millard | 5 | 5 | 2 | 2 | - | - |
| Shaw Pao Sze | 5 | 5 | - | - | - | - |
| Kok Yew Sim | 3 | 5 | - | - | - | - |

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

**Insurance or indemnification of officers**

During the financial year, Zicom Group Limited paid a premium of A$11,968 to insure against liabilities of the directors and officers of the reporting entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against directors or officers in their capacities as officers of the reporting entity.

The policy also provides for certain statutory fines incurred by the reporting entity or officers, and protection for claims made alleging a breach of professional duty arising out of an act, error or omission of the officers of the reporting entity.

**Retirement, election and continuation in office of directors**

Mr Frank Leong retires by rotation and being eligible, offers himself for re-election.

**Directors' relevant interests in Zicom Group Limited**

In accordance with S300(11) of the *Corporations Act 2001*, except for Mr G L Sim, the relevant interests of the Directors in the shares and options of Zicom Group Limited as at the date of this report are unchanged to those disclosed within the financial statements as at 30 June 2011.

At the date of this report, Mr G L Sim held 74,285,212 shares in the Company.

**Remuneration report (Audited)**

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. This information has been audited as required by section 308(3C) of the Act.

Key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Service Agreements
C Details of remuneration

***A Principles used to determine the nature and amount of remuneration***

A combined Nomination and Remuneration Committee has been formed. The members of the Nomination and Remuneration Committee comprise of Mr Y P Lim as Chairman with Mr Frank Leong and Mr G L Sim as members. The Nomination and Remuneration Committee had approved the Service Agreement of the group managing director Mr G L Sim and this was subsequently ratified by the full board.

The key principle of Zicom Group Limited's remuneration policy is to ensure remuneration is set at levels that will attract, motivate, reward and retain personnel to improve business results, having regard to the company's financial performance and financial position.

*Non-executive directors*

Remuneration of non-executive directors is determined by the directors within the maximum amount approved by the shareholders. Each non-executive director receives a base fee of A$25,000 for being a director of the Group. An additional fee of A$2,000 is also paid for each Board committee of which a non-executive director sits and A$5,000 if the director is a Chair of a Board Committee. The payment of additional fees for serving on committee recognises the additional time commitment, and responsibilities of the non-executive directors who serve on one or more sub committees. There is also an attendance fee of A$1,000 for each meeting attended by the non-executive director.

Non-executive directors are eligible to participate in the Zicom Employee Share and Option Plan ("ZESOP"). The Board considers that there should be an appropriate mix of remuneration comprising cash and securities for all Directors to link the remuneration of the Directors to the financial performance of the Company and to align the interests of shareholders and all Directors.

The board recommends that total directors' fees for non-executive directors for the financial year ending 30 June 2012 be fixed at a maximum sum of A$150,000 (S$192,300) at the same level as the previous year.

*Senior Executives pay*

The senior executive pay and reward structure has the following components:

- Base pay and benefits;
- Short term incentives;
- Other remuneration such as superannuation,
- Participation in the Zicom Employee Share and Option Plan.

The company's policy does not allow transactions which limit the economic risk in participating in unvested entitlements under equity-based remuneration schemes.

*Base pay*

The level of base pay is set so as to provide a level of remuneration which is appropriate to the position and is competitive in the market. The level of remuneration is reviewed annually to ensure the senior executive's pay is competitive with the market. A senior executive's pay is also reviewed on promotion.

*Benefits*

Senior Executives receive benefits including health insurance, disability insurance and car allowances.

*Short term incentives*

The objective of short term incentives is to reward the senior executives of the group with performance bonus tied to a minimum profit threshold of the group companies. Such bonuses are paid within 90 days after the year end and completion of audit.

***B Service Agreements***

Group Managing Director

The group managing director, Mr G L Sim is directly employed by Zicom Holdings Private Limited ("ZHPL") and has renewed his service agreement with ZHPL for another 5 years with effect from 1 July 2011. The group and Mr Sim are required to give each other at least 6 months notice in the termination of the service agreement. Under the terms of his new service agreement, Mr Sim continues to be appointed as the Zicom Group Limited ("ZGL") Group Managing Director and Chairman as well as the Executive Chairman of all the operating subsidiaries.

Mr Sim is entitled to an annual review of his monthly salary if the company's results exceed 15% return on shareholders' funds. Mr Sim has frozen his monthly salary since 2007 although the company's return on shareholders' funds has consistently exceeded 15% from 2007. Mr Sim will continue to draw the monthly salary at the 2007 level for the next 5 years and waive all salary increments. Apart from this, all other benefits, terms and conditions in his service agreement remain unchanged.

Mr Sim is paid a monthly salary and a car allowance. Mr Sim is entitled to a performance bonus not exceeding 5% of the pre-tax consolidated profits of ZHPL upon achieving agreed minimum profit targets. He is entitled to convert part of this performance bonus up to no more than 50% of the amount payable, into shares of ZGL at the average of the closing prices of the last 5 trading days before the end of the relevant financial year. However, such entitlement must be exercised within 7 working days after the financial year end. ZHPL's profits exceeded the target for the financial year just ended and Mr Sim will be paid a bonus accordingly. For the current financial year, Mr Sim did not elect to convert any part of his performance bonus into ZGL shares.

Mr Sim is not paid any salary or fees by ZGL, Cesco Australia Limited ("CAL") or any other group companies. In the event CAL achieves the minimum pre-tax profits, Mr Sim will be paid a bonus not exceeding 5% of CAL's profits. During the year just ended, Mr Sim was not paid any bonus by CAL as the profit target was not achieved.

<u>Other Senior Executives</u>

All senior executives have rolling contracts. The company and the senior executives are required to give each other 6 months' notice to terminate the service contracts. The senior executives are entitled to a monthly salary and a car allowance. The senior executives are paid a performance bonus on their respective companies achieving agreed minimum profit targets. These senior executives are also entitled to convert part of their performance bonus, up to no more than 50% of the amount payable, into shares in ZGL at the average of the closing prices of the last 5 trading days before the end of the relevant financial year. However, such entitlement must be exercised within 7 working days after the financial year end. For the year just ended, none of the senior executives exercised the option to convert part of their performance bonus into ZGL shares.

*Zicom Employee Share and Option Plan*

Options are granted under the Zicom Employee Share and Option Plan ("ZESOP") which was approved by shareholders on 23 November 2006.

A person is eligible to participate in ZESOP if he or she is a director or an employee of a group company. The board may at any time make invitations to eligible employees to participate in the ZESOP. The invitation will specify the total number of options each eligible employee may acquire, the exercise price, period and exercise conditions. All options shall lapse upon the expiry of the exercise period as determined by the board or 10 years after grant of the option whichever is earlier.

If an eligible participant ceases to be employed by any member of the group his or her options shall lapse. In the event an eligible participant, who, by reason of death, or physical or mental incapacity or such other reasons as the Board may approve, ceases to be an eligible participant before the participant has exercised all options under ZESOP, then those options shall continue to be capable of being exercised in accordance with the rules.

Options granted under ZESOP carry no voting rights or entitlement to dividends.

During the current financial year, an additional 5,000,000 options were granted to deserving employees and directors to acquire the ZGL shares at A$0.18 per share to retain talent and inculcate ownership in the business. These options are valid for 5 years, 50% of these options are exercisable 12 months from date of grant and the remaining are exercisable 24 months after the grant date.

Options are granted at no cost to employees. When exercised, each option is convertible into one ordinary share, pursuant to a resolution passed at a meeting of the Board, which shall be credited as fully paid up and rank equally with all other fully paid ordinary share capital.

During the financial year, directors and employees have exercised options to acquire 1,162,500 fully paid ordinary shares in Zicom Group Limited at a weighted average exercise price of A$0.28 per share.

*Company Performance*

The table below shows the performance of the Group for the past 5 financial years:

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Earnings per share (Australian cents) | 5.15 | 4.02 | 4.47 | 3.53 | 3.50 |
| Dividend per share (Australian cents) | 1.00 | 0.85 | 0.60 | 0.80 | 0.35 |
| Closing share price (Australian cents) | 50.0 | 12.5 | 10.0 | 20.0 | 33.0 |
| Net tangible asset per share (Australian cents) | 24.73 | 23.53 | 20.84 | 15.58 | 11.24 |

## C *Details of remuneration (audited)*

Details of the remuneration of the directors and the key management personnel of Zicom Group Limited for the year ended 30 June 2011 and 2010 are set out in the following tables:

| 2011 | Short Term Employee Benefits | | | | Post Employment Benefit | Share-Based Payment | | |
|---|---|---|---|---|---|---|---|---|
| Name | Cash Salary and Fees | Short Term Cash | Non-Monetary Benefits | Other Short-Term Employee Benefits | Superannuation | Equity-Based | Total | % Performance Related |
| | S$ | S$ | S$ | S$ | S$ | S$ | S$ | % |
| *Non-executive Directors* | | | | | | | | |
| Y P Lim | 47,601 | - | - | - | - | 3,969 | 51,570 | - |
| F Leong | 43,741 | - | - | - | - | 3,969 | 47,710 | - |
| I R Millard | 45,028 | - | - | - | - | 3,969 | 48,997 | - |
| S P Sze | 38,595 | - | - | - | - | 2,070 | 40,665 | - |
| **Sub-total non-executive directors** | 174,965 | - | - | - | - | 13,977 | 188,942 | - |
| *Executive Directors* | | | | | | | | |
| G L Sim - Chairman | 432,000 | 710,000 | - | 24,000 | 4,262 | - | 1,170,262 | 60.7 |
| K H Sim | 119,058 | 165,000 | - | 12,000 | 11,523 | 14,895 | 322,476 | 51.2 |
| K Y Sim (*alternate to K H Sim, appointed 5 Jul 2010)* | 144,640 | 159,500 | - | 12,000 | 14,318 | 14,895 | 345,353 | 46.2 |
| **Sub-total executive directors** | 695,698 | 1,034,500 | - | 48,000 | 30,103 | 29,790 | 1,838,091 | |
| *Other key management personnel* | | | | | | | | |
| J L Sim (1) | 202,495 | 500,000 | - | 21,600 | 5,973 | 20,115 | 750,183 | 66.7 |
| G H Teoh (2) | 200,700 | 295,250 | - | 39,000 | 8,213 | 17,256 | 560,419 | 52.7 |
| H S Tang (3) | 184,073 | 300,000 | - | 20,400 | 4,062 | 17,449 | 525,984 | 57.0 |
| J Koon Sim (4) | 202,370 | 201,500 | 3,857 | 18,000 | 14,538 | - | 440,265 | 45.8 |
| **Sub-total other key management personnel** | 789,638 | 1,296,750 | 3,857 | 99,000 | 32,786 | 54,820 | 2,276,851 | |
| **Grand total** | 1,660,301 | 2,331,250 | 3,857 | 147,000 | 62,889 | 98,587 | 4,303,884 | |

(1) J L Sim is the joint managing director of Zicom Pte Ltd

(2) G H Teoh is the managing director of Foundation Associates Engineering Pte Ltd

(3) H S Tang is the joint managing director of Zicom Pte Ltd

(4) J Koon Sim is the president of Sys-Mac Automation Engineering Pte Ltd

| 2010 | Short Term Employee Benefits | | | | Post Employment Benefit | Share-Based Payment | | |
|---|---|---|---|---|---|---|---|---|
| Name | Cash Salary and Fees | Short Term Cash | Non-Monetary Benefits | Other Short-Term Employee Benefits | Superannuation | Equity-Based | Total | % Performance Related |
| | S$ | S$ | S$ | S$ | S$ | S$ | S$ | **%** |
| *Non-executive Directors* | | | | | | | | |
| Y P Lim | 52,156 | - | - | - | - | 1,046 | 53,202 | - |
| F Leong | 45,947 | - | - | - | - | 1,046 | 46,993 | - |
| I R Millard | 45,947 | - | - | - | - | 1,046 | 46,993 | - |
| S P Sze *(appointed 19 Feb 2010)* | 26,923 | - | - | - | - | - | 26,923 | - |
| A G Palmer *(resigned 18 Feb 2010)* | 10,331 | - | - | - | - | - | 10,331 | - |
| B H Cheak *(retired 12 Nov 2009)* | - | - | - | - | - | - | - | - |
| **Sub-total non-executive directors** | 181,304 | - | - | - | - | 3,138 | 184,442 | - |
| *Executive Directors* | | | | | | | | |
| G L Sim - Chairman | 432,000 | 262,500 | - | 24,000 | 3,837 | 262,500 | 984,837 | 53.3 |
| K H Sim | 116,290 | 55,000 | - | 12,000 | 11,098 | 57,094 | 251,482 | 43.7 |
| K Y Sim *(alternate to K H Sim, appointed 5 Jul 2010)* | 119,154 | 20,000 | - | 12,000 | 7,836 | 2,094 | 161,084 | 12.4 |
| **Sub-total executive directors** | 667,444 | 337,500 | - | 48,000 | 22,771 | 321,688 | 1,397,403 | |
| *Other key management personnel* | | | | | | | | |
| J L Sim [(1)] | 229,542 | 276,500 | - | 21,600 | 4,056 | 127,202 | 658,900 | 59.9 |
| G H Teoh [(2)] | 180,000 | 187,000 | - | 18,000 | 6,738 | 4,351 | 396,089 | 47.2 |
| H S Tang [(3)] | 177,547 | 173,600 | - | 14,400 | 2,936 | 78,751 | 447,234 | 55.5 |
| J Koon Sim [(4)] | 180,000 | 34,000 | 7,039 | 18,000 | 7,836 | - | 246,875 | 13.8 |
| J V Vaughan [(5)] *(resigned on 30 Apr 2010)* | 172,198 | - | 9,957 | - | 16,548 | - | 198,703 | - |
| **Sub-total other key management personnel** | 939,287 | 671,100 | 16,996 | 72,000 | 38,114 | 210,304 | 1,947,801 | |
| **Grand total** | 1,788,035 | 1,008,600 | 16,996 | 120,000 | 60,885 | 535,130 | 3,529,646 | |

(1) J L Sim is the joint managing director of Zicom Pte Ltd

(2) G H Teoh is the managing director of Foundation Associates Engineering Pte Ltd

(3) H S Tang is the joint managing director of Zicom Pte Ltd

(4) J Koon Sim is the president of Sys-Mac Automation Engineering Pte Ltd

(5) J V Vaughan was the managing director of Cesco Australia Ltd

### Details of share options to key management personnel

The following options were granted to the following key management personnel during the year ended 30 June 2011.

| 2011 | No of options granted | Grant date | Fair value per option at grant date | Exercise price per option | Expiry date | First exercise date | Last exercise date |
|---|---|---|---|---|---|---|---|
| ***Directors*** | | | | | | | |
| K H Sim | 100,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2011 | 14/11/2015 |
| | 100,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2012 | 14/11/2015 |
| K Y Sim | 100,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2011 | 14/11/2015 |
| | 100,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2012 | 14/11/2015 |
| Y P Lim | 25,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2011 | 14/11/2015 |
| | 25,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2012 | 14/11/2015 |
| F Leong | 25,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2011 | 14/11/2015 |
| | 25,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2012 | 14/11/2015 |
| I R Millard | 25,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2011 | 14/11/2015 |
| | 25,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2012 | 14/11/2015 |
| S P Sze | 15,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2011 | 14/11/2015 |
| | 15,000 | 15 Nov 10 | A$0.11 | A$0.18 | 14/11/2015 | 15/11/2012 | 14/11/2015 |
| ***Executives*** | | | | | | | |
| J L Sim | 100,000 | 1 Oct 10 | A$0.10 | A$0.18 | 30/09/2015 | 01/10/2011 | 30/09/2015 |
| | 100,000 | 1 Oct 10 | A$0.10 | A$0.18 | 30/09/2015 | 01/10/2012 | 30/09/2015 |
| H S Tang | 100,000 | 1 Oct 10 | A$0.10 | A$0.18 | 30/09/2015 | 01/10/2011 | 30/09/2015 |
| | 100,000 | 1 Oct 10 | A$0.10 | A$0.18 | 30/09/2015 | 01/10/2012 | 30/09/2015 |
| G H Teoh | 100,000 | 1 Oct 10 | A$0.10 | A$0.18 | 30/09/2015 | 01/10/2011 | 30/09/2015 |
| | 100,000 | 1 Oct 10 | A$0.10 | A$0.18 | 30/09/2015 | 01/10/2012 | 30/09/2015 |

| | Value of options granted during the year (S$) | No. of options exercised during the year | Value of options exercised during the year (S$) | Remuneration consisting of options for the year (%) |
|---|---|---|---|---|
| ***Directors*** | | | | |
| K H Sim | 29,394 | – | – | 4.6% |
| K Y Sim | 29,394 | – | – | 4.3% |
| Y P Lim | 7,349 | 25,000 | 1,252 | 7.7% |
| F Leong | 7,349 | 25,000 | 1,252 | 8.3% |
| I R Millard | 7,349 | 25,000 | 1,252 | 8.1% |
| S P Sze | 4,409 | – | – | 5.1% |
| ***Executives*** | | | | |
| J L Sim | 26,123 | – | – | 2.7% |
| H S Tang | 26,123 | – | – | 3.3% |
| G H Teoh | 26,123 | 100,000 | 10,417 | 3.1% |
| | 163,613 | 175,000 | 14,173 | |

# Directors' Report 2011

For details on the valuation of options, including models and assumption used, please refer to note 25.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

No options were granted or exercised in the preceding financial year.

**Legal Proceedings**

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity or to intervene in any proceedings to which the consolidated entity is a party for the purpose of taking responsibility on behalf of the consolidated entity for all or any part of those proceedings.

**Auditor**

Ernst and Young continues in office in accordance with section 327 of the *Corporations Act 2001*.

Non-audit services provided by the entity's auditor and related practices of the entity auditor, Ernst & Young, during the year include a total of S$24,500 for the provision of tax compliance services. The directors are satisfied that the services disclosed does not compromise the external auditors' independence as the nature of the services provided do not compromise the general principles relating to auditor independence imposed by the *Corporations Act 2001*.

A copy of the auditor's signed independence declaration as required under Section 307C of the *Corporations Act 2001* is attached to this report.

This report was made in accordance with a resolution of the board of directors.

G L Sim
Chairman/Managing Director
Brisbane
29 September 2011

# Auditor's Independence Declaration

TO THE DIRECTORS OF ZICOM GROUP LIMITED

In relation to our audit of the financial report of Zicom Group Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Ric Roach
Partner
29 September 2011

# Corporate Governance Statement

**Introduction**

The Board of Directors is responsible for the Corporate Governance of Zicom Group Limited and its controlled entities (referred to in this document as "the Company"). The Directors are focused on fulfilling their responsibilities individually and as a Board to all of the Company's stakeholders. This involves recognition of and a need to adopt principles of good corporate governance. The Board supports the guidelines on the "Corporate Governance Principles and Recommendations 2nd edition (2007)" established by the ASX Corporate Governance Council.

The Company has reviewed its Corporate Governance procedures over the past year to ensure compliance with the principles of good corporate governance.

At the end of this Corporate Governance Statement there is a table detailing the recommendations with which the Company does not strictly comply.

A description of the Company's practices in complying with the principles is set out below.

**Principle 1: Laying Solid Foundations for Management and Oversight**

The role of the Board is to lead and oversee the management and direction of the Company and its controlled entities.

After appropriate consultation with executive management the Board:

- defines and sets the business objectives. It subsequently monitors performance and achievement of the Company's objectives;
- oversees the reporting on matters of compliance with corporate policies and laws, takes responsibility for risk management processes and reviews executive management of the Company;
- monitors and approves business plans, financial performance and budgets, and available resources and major capital expenditure initiatives of the Company;
- maintains liaison with the Company's auditor; and
- reports to Shareholders.

Senior Executives and Executive Directors have letters of appointments or service contracts describing their terms of office, duties, rights and responsibilities.

The performance of the board and key executives is reviewed regularly against both measureable and qualitative indicators. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Zicom Group Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

**Principle 2: Structure the Board to Add Value.**

The recommendations of the Corporate Governance Council are that the composition of the Board be determined so as to provide the Company with a broad base of industry, business, technical, administrative and corporate skill and experience considered necessary to represent Shareholders and fulfil the business objectives of the Company.

The recommendations of best practice are that the majority of the directors and in particular the chairperson should be independent. An independent director is one who:

- does not hold an executive position;
- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or other group member, or been a director after ceasing to hold any such employment;
- is not a principal of a significant professional adviser or a significant consultant of the Company or other group member, or an employee materially associated with the service provided;

- is not a significant supplier or customer of the Company or other group member, or an officer of, or otherwise associated directly or indirectly with a significant supplier or customer;
- has no significant contractual relationship with the Company or other group member other than as a Director of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Individual board members do not fulfil all of these criteria but the overall profile of the Board is considered the most appropriate for the activities of the Company.

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are included in the "Board of Directors" section within the annual report.

Materiality thresholds in determining the independence of non-executive directors are:

- A relationship that accounts for more than 10% of the Director's gross income (other than director's fees paid by the company).
- Where the relationship is with a firm, company or entity, in respect of which the Director (or any associate) has more than a 20% shareholding if a private company or 2% if a listed company.

Mr G L Sim was appointed Managing Director of Zicom Group Limited commencing 1 July 2006, and Chairman of Zicom Group Limited with effect from 23 November 2006. He is a major shareholder in Zicom Group Limited through his interest in his family company, SNS Holdings Pte Ltd. Previously Mr Sim had been the major shareholder (through SNS Holdings Pte Ltd) of Zicom Holdings Pte Ltd ("ZHPL"). Mr Sim has been the Managing Director of ZHPL since founding the company and was appointed the Chairman of ZHPL on 17 August 2007, in line with his position as the Group chairman. The Board has determined that Mr Sim is, and was not independent.

Mr Frank Leong has no relationships or interests that would affect his role as an independent director.

Mr Y P Lim has no relationships or interests that would affect his role as an independent director.

Mr Ian R Millard has no relationships or interests that would affect his role as an independent director.

Mr S P Sze has no relationships or interests that would affect his role as an independent director.

Mr K H Sim is an Executive Director and therefore is considered by the Board to be not independent.

Mr K Y Sim is an alternate director of Mr K H Sim and therefore is considered by the Board to be not independent.

**Term of Office**

The Company's Constitution specifies that at the annual general meeting in every year, one third of the Directors for the time being but not exceeding one-third (with the exception of the Managing Director) must retire from office by rotation.

**Independent Professional Advice**

Directors and Board Committees have the right, in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, and this will not be unreasonably withheld.

**Board Committees**

The Company has a Nomination and Remuneration Committee and an Audit Committee, the details of which are set out below:

***Nomination and Remuneration Committee***

The Nomination and Remuneration Committee is a combined committee, comprising of the following members:

- Mr Y P Lim (Chairman)
- Mr G L Sim
- Mr Frank Leong

The Committee has the responsibility for recruitment and evaluation of Board Members. In addition the committee formulates the remuneration policies for the Board Members and Managing Director of the Group.

***Audit Committee***

The Audit Committee comprises of the following members:

- Mr Ian Millard (Chairman)
- Mr Frank Leong
- Mr Y P Lim

The Audit Committee operates in accordance with a charter. The main responsibilities of the Audit Committee are to:

- Review, assess and approve the annual report, the half year financial report and all other financial information published by the Company or released to the market.
- Review the effectiveness of the Group's internal control environment, including effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.
- Oversee the effective operation of the risk management framework.
- Recommend the appointment, removal and remuneration of the external Auditor, and review the terms of their engagement, the scope and quality of their audit and assess their performance.
- Consider the independence and competence of the external Auditor on an ongoing basis.
- Review and monitor related party transactions and assess their propriety.
- Report on matters relevant to the committee's role and responsibilities.

**The Board and the Company Secretaries**

The Company Secretaries are accountable to the Board and the appointment or removal of the Company Secretary is a matter of the Board as a whole.

Each Director is entitled to access the advice and services of the Company Secretary.

**Principle 3: Promote Ethical and Responsible Decision-Making**

*Code of Conduct*

Directors, officers, employees and consultants to the Company are required to observe high standards of behaviour and business ethics on behalf of the Company and they are required to maintain a reputation of integrity on the part of both the Company and themselves. The Company does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Directors are required to disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director or the interests of any other party in so far as it affects the activities of the Company. When applicable, directors are to act in accordance with the *Corporations Act* if a conflict cannot be removed or it persists. Directors would be restricted from taking part in the decision making process or discussions where that conflict does arise.

# Corporate Governance Statement

Directors are required to make disclosure of any share trading. The key principles of the Share Trading Policy are that Directors and officers are prohibited to trade while in possession of unpublished price sensitive information and during the following closed periods:

- The period between 1 January and the release of the Company's Half Year results to the Stock Exchange
- The period between 1 July and the release of the Company's Full Year results to the Stock Exchange
- The twenty-four hours following an announcement of price sensitive information on the Stock Exchange
- Other periods as may be imposed by the Company when price sensitive, non-public information may exist in relation to a matter

Price sensitive information is information that a reasonable person would expect to have a material effect on the price or value of the company shares. The undertaking of any trading in shares must be notified to the Company Secretary who makes disclosure to the ASX.

*Diversity Policy*

The Company does not have a written diversity policy, however, the Company recognises the importance of benefitting from all available talent regardless of gender, age, ethnicity and cultural background. The Company promotes an environment conducive to the appointment of well qualified employees, senior management and board candidates so that there is appropriate diversity to maximise the achievement of corporate goals.

The Company has employees including executives from diversified cultural background and nationalities such as Australians, Bangladeshis, Chinese, Indians, Indonesians, Filipinos, Malaysians, New Zealanders, Singaporeans and Thais. In addition, approximately 17% of the Company's workforce is made up of female employees.

**Principal 4: Safeguard Integrity in Financial Reporting**

As stated above the Company's Audit Committee is made up of independent directors.

To ensure the integrity of the Company's financial reports, the managing director and the Group Financial Controller are required to declare annually, in writing to the board, that the financial records of the Company for the respective financial year have been properly maintained, the Company's financial reports comply with accounting standards and present a true and fair view of the Company's financial condition and operational results.

Each member of the Board has access to the external Auditor and the Auditor has access to each Board member.

**Principal 5: Make Timely and Balanced Disclosure**

The Joint Company Secretaries are persons responsible for overseeing and co-ordinating disclosure of information to the ASX as well as communication with the ASX. This involves compliance with the continuous disclosure requirements of the Listing Rules.

**Principal 6: Respect the Rights of Shareholders**

Pursuant to Principle 6, the Board's objective is to promote effective communication with its shareholders at all times.

Zicom Group Limited is committed to:

- Ensuring that shareholders and financial markets are provided with full and timely information about the Company's activities in a balanced and understandable way
- Complying with continuous disclosure obligations contained in the ASX listing rules and the *Corporations Act* in Australia
- Communicate effectively with its shareholders and making it easier for shareholders to communicate with the Company

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX
- Through the distribution of annual report and Notice of Annual General Meeting
- Through shareholder meetings and investor relations presentations
- Through letters and other forms of communications directly with shareholders when deemed necessary
- Hosting all of the above on the Company website at www.zicomgroup.com

The external auditors are required to attend the Annual General Meeting and are available to answer any shareholder questions about the conduct of the audit preparation of the audit report.

**Principle 7: Recognise and Manage Risk**

The Board is conscious of the need to continually maintain systems of risk management and controls in order to create long-term shareholders value. In recognition of this, the board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal controls on an annual basis. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management through the Managing Director, including the responsibility for the day to day design and implementation of the Company's risk management and internal control system. Management reports to the board on the Company's key risks and the extent to which it believes these risks are effectively managed on a regular basis.

In accordance with Section 295A of the *Corporations Act*, the Group Managing Director (Chief Executive Officer equivalent) and the Group Financial Controller (Chief Financial Officer equivalent) have provided a written statement to the board that:

- The view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the Board's policies; and
- The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

**Principle 8: Remunerate Fairly and Responsibly**

As stated above, a Nomination and Remuneration Committee has been established by the board.

Details of the remuneration for Directors and Key Management Personnel can be found in the Directors' Report within the Annual Report.

The Group Managing Director and Group Executive Director receive performance based remuneration. In addition, the Group Managing Director has renewed his service agreement with the Group for a term of another 5 years from 1 July 2011. The other Directors do not receive any performance based remuneration and do not have contracts with the Company that give them any form of certain tenure. One third of the Directors retire annually and are free to seek re-election by Shareholders.

Each member of the Board has committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

A maximum amount of remuneration for non-executive Directors is fixed by Shareholders in general meeting and can be varied in the same manner. In determining the allocation (if any) the Board must take account of the time demands on the Directors together with such factors as fees paid to other corporate directors and to the responsibilities undertaken by them.

The Directors with the exception of Mr G L Sim were granted options after it was approved by the shareholders in an Extraordinary General Meeting on 28 August 2008. The Board considers that there should be an appropriate mix of remuneration comprising cash and securities for all Directors to link the remuneration of the Directors to the financial performance of the Company. The Directors consider this remuneration policy to be a sensible and balanced policy which aligns the interests of shareholders and all Directors. The hedging policy regarding unvested options is detailed within the Directors' Report.

# Corporate Governance Statement

**Departures from the Recommendations of the ASX Corporate Governance Council.**

| Recommendation Number | Departure from Recommendation | Explanation for Departure |
|---|---|---|
| 1.1 | There is no formalisation of the separation of functions between the Board and Management. | Throughout the reporting period the Board consisted of a majority of non-executive Directors. Practices followed are consistent with the Principle. |
| 1.2 and 2.5 | There is no written process for performance evaluation of the Board, committees, individual Directors and key executives. | The Nomination and Remuneration Committee monitors, reviews and discusses the performance of the Board and key executives and implements changes where necessary. |
| 2.2 | The Chair is not an independent director. | The Chairperson and Managing Director positions are held by the same non-independent director. The Board has chosen a director who has significant experience in the business who will lead the Company in the best interests of the shareholders. |
| 2.3 | The Chair and Managing Director positions are held by the same non-independent director. | The Board has agreed on the responsibilities and division between Chairman and Managing Director. |
| 3.3 | There is no written Diversity Policy and there are no established measureable objectives for achieving gender diversity. | Although there are no written policies and measureable objectives in place, practices followed are consistent with the Principle. |
| 5.1 | There are no written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements. | Although there are no written policies in place, the responsibility for compliance with the ASX Listing Rules is handled by the Board, in conjunction with the Company Secretary. |
| 6.1 | The Company has no formally designed or disclosed communication strategy with Shareholders. | The Board is conscious of the need to keep Shareholders and markets advised. The procedures adopted within the Company, although not written, are weighted towards informing Shareholders and markets. |
| 7.1 and 7.2 | There has been no written implementation of policy on risk oversight and management or for senior management to make statements to the Board concerning those matters. | Given the nature and size of the Company, its business interests and the involvement of all Directors, all of whom have business management skills, it was not considered necessary to establish a written policy. The Company adheres to the Recommendations under this Principle for statements by senior management to the Board. |

# Consolidated Statement of Comprehensive Income

**for the year ended 30 June 2011 (In Singapore dollars)**

| | Note | 2011<br>S$ | 2010<br>S$ |
|---|---|---|---|
| **Revenue from continuing operations** | 4 | 146,444,206 | 107,692,350 |
| Other operating income | 4 | 750,311 | 495,455 |
| Cost of materials | | (81,536,419) | (61,074,804) |
| Employee, contract labour and related costs | | (26,585,466) | (19,288,390) |
| Depreciation and amortisation | | (4,599,998) | (3,612,607) |
| Property related expenses | | (2,133,101) | (2,039,426) |
| Other operating expenses | 4 | (13,560,446) | (9,599,650) |
| Finance costs | | (1,078,964) | (759,291) |
| Share of results of associates | | (892,499) | – |
| **Profit before taxation** | | 16,807,624 | 11,813,637 |
| Tax expense | 5 | (2,683,624) | (1,600,834) |
| **Profit for the year from continuing operations after taxation** | | 14,124,000 | 10,212,803 |
| **Other comprehensive income:** | | | |
| Foreign currency translation on consolidation | | (22,135) | 245,625 |
| Effect of tax on other comprehensive income | | – | – |
| | | (22,135) | 245,625 |
| **Total comprehensive income** | | 14,101,865 | 10,458,428 |
| **Profit attributable to:** | | | |
| Owners of parent | | 14,087,014 | 10,143,192 |
| Non-controlling interest | | 36,986 | 69,611 |
| **Profit for the year** | | 14,124,000 | 10,212,803 |
| **Total comprehensive income attributable to:** | | | |
| Owners of parent | | 14,064,879 | 10,388,817 |
| Non-controlling interest | | 36,986 | 69,611 |
| | | 14,101,865 | 10,458,428 |
| **Earnings per share (cents)** | | | |
| Basic earnings per share | 6 | 6.62 | 4.82 |
| Diluted earnings per share | 6 | 6.60 | 4.82 |

# Consolidated Balance Sheet

as at 30 June 2011 (In Singapore dollars)

| | Note | 2011 S$ | 2010 S$ |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 35,342,535 | 33,428,368 |
| Intangible assets | 9 | 10,757,248 | 7,034,572 |
| Deferred tax assets | 5 | 839,863 | 519,539 |
| Finance lease receivable | 14 | 26,310 | – |
| Investment in associates | 11 | 4,845,458 | – |
| Others | 12 | 520 | 80,521 |
| | | 51,811,934 | 41,063,000 |
| **Current assets** | | | |
| Cash and bank balances | 20 | 23,674,855 | 24,985,796 |
| Inventories | 13 | 30,306,155 | 19,916,692 |
| Trade and other receivables | 14 | 34,154,576 | 32,119,924 |
| Prepayments | | 689,654 | 1,795,698 |
| | | 88,825,240 | 78,818,110 |
| **TOTAL ASSETS** | | 140,637,174 | 119,881,110 |
| **Current liabilities** | | | |
| Payables | 16 | 31,611,395 | 30,218,692 |
| Interest-bearing liabilities | 17 | 11,211,139 | 10,609,821 |
| Provisions | 18 | 1,401,097 | 1,163,440 |
| Provision for taxation | | 2,405,601 | 1,747,328 |
| Unearned income | | 124,546 | 38,271 |
| Unrealised loss on derivatives | | 110,148 | 497,331 |
| | | 46,863,926 | 44,274,883 |
| **NET CURRENT ASSETS** | | 41,961,314 | 34,543,227 |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | 17 | 10,637,528 | 7,361,061 |
| Deferred tax liabilities | 5 | 2,458,870 | 1,310,446 |
| Provisions | 18 | 283,302 | 173,298 |
| Unearned income | | 127,030 | – |
| | | 13,506,730 | 8,844,805 |
| **TOTAL LIABILITIES** | | 60,370,656 | 53,119,688 |
| **NET ASSETS** | | 80,266,518 | 66,761,422 |
| **Equity attributable to equity holders of the Company** | | | |
| Contributed equity | 19 | 36,982,943 | 36,990,811 |
| Reserves | | 41,418 | (266,968) |
| Retained earnings | | 41,339,938 | 29,745,923 |
| | | 78,364,299 | 66,469,766 |
| **Non-controlling interest** | | 1,902,219 | 291,656 |
| **TOTAL EQUITY** | | 80,266,518 | 66,761,422 |
| **TOTAL EQUITY AND LIABILITIES** | | 140,637,174 | 119,881,110 |

# Consolidated Statement of Changes in Equity

**for the year ended 30 June 2011 (In Singapore dollars)**

| | | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital | Share capital – exercise of share options (a) | Foreign currency translation reserve (b) | Share based payments reserve (c) | Retained earnings | Total | Non-controlling interest | Total equity |
| | | S$ | S$ | S$ | S$ | S$ | S$ | S$ | S$ |
| **Balance at 1.7.2009** | | 36,470,263 | – | (719,386) | 131,492 | 21,304,053 | 57,186,422 | 222,045 | 57,408,467 |
| Other comprehensive income | | – | – | 245,625 | – | – | 245,625 | – | 245,625 |
| Profit for the year | | – | – | – | – | 10,143,192 | 10,143,192 | 69,611 | 10,212,803 |
| Total comprehensive income for the year | | – | – | 245,625 | – | 10,143,192 | 10,388,817 | 69,611 | 10,458,428 |
| Shares issued, net of expense | 19 | 499,100 | – | – | – | – | 499,100 | – | 499,100 |
| Exercise of employee share options | 19 | 17,769 | 3,679 | – | (3,679) | – | 17,769 | – | 17,769 |
| Expiry of employee share options | | – | – | – | (10,605) | 10,605 | – | – | – |
| Cost of share-based payments | 25 | – | – | – | 89,585 | – | 89,585 | – | 89,585 |
| Dividends on ordinary shares | 7 | – | – | – | – | (1,711,927) | (1,711,927) | – | (1,711,927) |
| **Balance at 30.6.2010** | | 36,987,132 | 3,679 | (473,761) | 206,793 | 29,745,923 | 66,469,766 | 291,656 | 66,761,422 |
| Other comprehensive income | | – | – | (22,135) | – | – | (22,135) | – | (22,135) |
| Profit for the year | | – | – | – | – | 14,087,014 | 14,087,014 | 36,986 | 14,124,000 |
| Total comprehensive income for the year | | – | – | (22,135) | – | 14,087,014 | 14,064,879 | 36,986 | 14,101,865 |
| Shares issued, net of expense | 19 | 561,110 | – | – | – | – | 561,110 | – | 561,110 |
| Share buy-back | 19 | (1,107,012) | – | – | – | – | (1,107,012) | – | (1,107,012) |
| Exercise of employee share options | 19 | 422,355 | 115,679 | – | (115,679) | – | 422,355 | – | 422,355 |
| Cost of share-based payments | 25 | – | – | – | 446,200 | – | 446,200 | – | 446,200 |
| Acquisition of subsidiary companies | | – | – | – | – | – | – | 1,720,547 | 1,720,547 |
| Dividends on ordinary shares | 7 | – | – | – | – | (2,492,999) | (2,492,999) | – | (2,492,999) |
| Dividends to non-controlling shareholders | | – | – | – | – | – | – | (146,970) | (146,970) |
| **Balance at 30.6.2011** | | 36,863,585 | 119,358 | (495,896) | 537,314 | 41,339,938 | 78,364,299 | 1,902,219 | 80,266,518 |

(a) Share capital – exercise of share options is used to record the transfer from share-based payment reserve upon the exercise of the share options.

(b) Foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

(c) The share-based payments 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.

# Consolidated Statement of Cash Flows

**for the year ended 30 June 2011 (In Singapore dollars)**

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | S$ | S$ |
| **Cash flows from operating activities:** | | | |
| Operating profit before taxation | | 16,807,624 | 11,813,637 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 8 | 3,964,104 | 3,222,005 |
| Amortisation of intangible assets | 9 | 635,894 | 390,602 |
| Bad debts written off | 4 | 12,764 | 20,778 |
| Doubtful debts written back | 4 | (43,989) | (668,000) |
| Allowance for doubtful debts | 4 | 48,649 | 65,330 |
| Allowance for inventory obsolescence | 4 | 42,456 | 44,734 |
| Inventories written off | 4 | 1,962 | 981 |
| Interest expenses | | 1,078,964 | 759,291 |
| Interest income | 4 | (206,837) | (53,190) |
| Property, plant and equipment written off | 4 | 50,648 | 12,903 |
| Gain on disposal of property, plant and equipment | 4 | (19,431) | (19,418) |
| Loss on disposal of property, plant and equipment | 4 | 1,825 | 2,406 |
| Gain on disposal of equity interest in subsidiary | 4 | (33,203) | – |
| Goodwill written off | 4 | 5,212 | – |
| Provision for warranty | 4 | 403,684 | 532,903 |
| Provision for long service leave | 18 | 63 | 22,090 |
| Cost of share-based payments | 25 | 446,200 | 89,585 |
| Development expenditure written off | 4 | 325,201 | – |
| Investment in joint venture written off | 4 | 80,001 | – |
| Share of results of associates | 11 | 892,499 | – |
| Unrealised loss on derivatives | | 110,148 | 497,331 |
| Unrealised exchange loss | | 228,743 | 212,664 |
| **Operating profit before reinvestment in working capital** | | 28,433,181 | 16,946,632 |
| Increase in stocks and work-in-progress | | (10,254,972) | (2,751,680) |
| (Increase)/ decrease in projects-in-progress | | (5,269,273) | 2,486,042 |
| Decrease in debtors | | 541,993 | 1,660,390 |
| Increase in creditors | | 1,515,616 | 4,035,702 |
| **Cash generated from operations** | | 11,366,545 | 22,377,086 |
| Interest received | | 206,837 | 53,190 |
| Interest paid | | (1,071,708) | (763,910) |
| Income taxes paid | | (1,835,810) | (1,951,007) |
| **Net cash provided by operating activities** | | 8,665,864 | 19,715,359 |

# Consolidated Statement of Cash Flows

**for the year ended 30 June 2011 (In Singapore dollars)**

| | Note | 2011<br>S$ | 2010<br>S$ |
|---|---|---|---|
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | 8(b) | (5,416,780) | (5,964,423) |
| Proceeds from disposal of property, plant and equipment | 8(c) | 20,631 | 528,159 |
| Increase in software development | 9 | (454,073) | (370,091) |
| Increase in development expenditure | | – | (5,741) |
| Increase in investment in joint venture | | – | (30,000) |
| Decrease/ (increase) in amount due from joint venture | | 320,092 | (320,092) |
| Investment in associates | 11 | (5,237,957) | – |
| Increase in amount due from associates | | (33,182) | – |
| Acquisition of subsidiary – Orion Systems | 26(a) | (1,516,188) | – |
| Acquisition of subsidiary – PDH | 26(b) | 263,112 | – |
| Acquisition of subsidiary – SS Subsea | 26(d) | (57,464) | – |
| Disposal of subsidiary – SS Subsea | 26(d) | (11,823) | – |
| **Net cash used in investing activities** | | (12,123,632) | (6,162,188) |
| **Cash flows from financing activities:** | | | |
| Net (decrease)/ increase in amount due to directors | | (23,823) | 1,782 |
| Proceeds from bank borrowings | | 3,465,617 | 4,460,974 |
| Dividends paid on ordinary shares by the Company | 7 | (2,492,999) | (1,711,927) |
| Dividends paid on non-controlling shareholders | | (146,970) | – |
| Share buy-back | 19 | (1,107,012) | – |
| Proceeds from issue of shares | 19 | 561,110 | 499,100 |
| Proceeds from exercise of employee share options | | 422,355 | 17,769 |
| Proceeds from/ (repayment of) hire purchase creditors | | 1,341,711 | (1,672,711) |
| Decrease in fixed deposit-pledged | | – | 4,257 |
| **Net cash provided by financing activities** | | 2,019,989 | 1,599,244 |
| Net(decrease)/ increase in cash and cash equivalents | | (1,437,779) | 15,152,415 |
| Exchange rate effects | | 79,693 | (203,081) |
| Cash and cash equivalents at beginning of year | 20 | 24,538,092 | 9,588,758 |
| **Cash and cash equivalents at end of year** | 20 | 23,180,006 | 24,538,092 |

**1. Corporate information**

This financial report of Zicom Group Limited (the "Company" or "Parent Entity") and its subsidiaries for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 29 September 2011.

Zicom Group Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' report.

**2. Summary of significant accounting policies**

**2.1 Basis of preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis except for derivative financial instruments which have been measured at their fair values.

**2.2 Statement of compliance**

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(i) *Changes in accounting policies and disclosures*

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2010.

- AASB 2010 – 3 *Amendments to Australian Accounting Standards arising from Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]* effective 1 July 2010
- AASB 2010 – 1 *Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters [AASB 1 & AASB 7]* effective 1 July 2010
- AASB 2009 – 9 *Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters [AASB 1]* effective 1 January 2010
- AASB 2009 – 8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]* effective 1 January 2010
- AASB 2009 – 5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]* effective 1 January 2010
- AASB 2009 – 13 *Amendments to Australian Accounting Standards arising from Interpretation 19* effective 1 July 2010
- Interpretation 19 *Application of Tiers of Australian Accounting Standards* effective 1 July 2010

The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group.

**2. Summary of significant accounting policies (cont'd)**

**2.2 Statement of compliance (cont'd)**

(ii) *Accounting Standards and Interpretations issued but not effective*

Certain Australian Accounting Standards and Interpretations have been recently issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2011. The directors of the Group have yet to finalise their assessment of the impact of these new and amended standards and interpretations. These are outlined below:

- AASB 2010 – 10 *Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7]*
- AASB 2010 – 9 *Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1]*
- AASB 2010 – 8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]*
- AASB 2010 – 7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and interpretations 2, 5, 10, 12, 19 & 127]*
- AASB 2010 – 6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]*
- AASB 2010 – 5 *Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]*
- AASB 2010 – 4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]*
- AASB 2010 – 2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*
- AASB 2009 – 14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*
- AASB 2009 – 12 *Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]*
- AASB 2009 – 11 *Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] [Superseded by AASB 2010-7]*
- AASB 9 *Financial Instruments*
- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosure of Interests in Other Entities*
- AASB 13 *Fair Value Measurement*
- AASB 119 *Employee Benefits*
- AASB 124 *Related Party Disclosure*
- AASB 127 *Separate Financial Statements*
- AASB 128 *Investment in Associates and Joint Ventures*
- AASB 1053 *Application of Tiers of Australian Accounting Standards*

**2. Summary of significant accounting policies (cont'd)**

**2.3 Principles of consolidation**

*Basis of consolidation from 1 July 2009*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

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 gains and losses resulting from intra-group transactions are eliminated in full.

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

Investments in subsidiaries held by Zicom Group Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the recorded cost of investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at the acquisition date, separately from goodwill, the identifiable assets required, the liabilities assumed and any non-controlling interest ("NCI") in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of consideration is goodwill or discount on acquisition.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated balance sheet, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary that does not result in 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.
- 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 parent's share of components previously recognised in other comprehensive income to profit or loss.

**2. Summary of significant accounting policies (cont'd)**

**2.3 Principles of consolidation (cont'd)**

*Basis of consolidation prior to 1 July 2009*

Certain of the above mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interest, prior to 1 July 2009, were accounted for using the parent entity extension method, whereby, the difference between the consolidation and the book value of the share of the net assets acquired was recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 July 2009 were not reallocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying values of such investments at 1 July 2009 have not been restated.

**2.4 Business combinations**

*Subsequent to 1 July 2009*

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquire and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in operating expenses.

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in the statement of comprehensive income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

**2. Summary of significant accounting policies (cont'd)**

**2.4 Business combinations (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 2.8 (a). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in the statement of comprehensive income on the acquisition date.

*Prior to 1 July 2009*

In comparison to the above-mentioned requirements, the following difference applied:

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

Business combinations achieved in stages were accounted for in separate steps. Any additional acquired share of interest did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

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 adjustments to the contingent consideration were adjusted against goodwill.

**2.5 Operating segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects.

- Nature of the products and services
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

**2. Summary of significant accounting policies (cont'd)**

**2.5 Operating segments (cont'd)**

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets, head office expenses and income tax assets and liabilities. Segment capital expenditure is the total costs incurred during the year to acquire segment assets by geographical area that are expected to be used for more than one year.

**2.6 Foreign currency translation**

*(a) Functional and presentation currency*

The presentation currency of Zicom Group Limited is Singapore dollars (S$). Each subsidiary in the Group determines its own functional currency and items included in the financial statements of each subsidiary company are measured using that functional currency.

*(b) Foreign currency transactions*

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 rate of exchange ruling at the balance sheet 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 balance sheet date are recognised in the statement of comprehensive income except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity.

*(c) Foreign currency translation*

The results and balance sheet of foreign operations are translated into Singapore dollars using the following procedures:

- Assets and liabilities for each balance sheet presented are translated at the closing rate ruling at that balance sheet date; and

- Income and expenses for each statement of comprehensive income are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions.

The exchange differences arising on the translation are taken directly to a separate component of other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

**2. Summary of significant accounting policies (cont'd)**

**2.7 Property, plant and equipment**

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

| | | |
|---|---|---|
| Leasehold properties | – | over remaining period of the lease expiring years 2039 to 2043 |
| Machinery | – | 10 years |
| Office furniture and equipment | – | 5 years |
| Leasehold improvements | – | 5 years |
| Motor vehicles | – | 5 years |
| Computers | – | 1 year |

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

The residual value, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

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

**2.8 Intangible assets**

*(a) Goodwill*

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in the statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated 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 the statement of comprehensive income. Impairment losses recognised for goodwill are not reversed in subsequent periods.

**2. Summary of significant accounting policies (cont'd)**

**2.8 Intangible assets (cont'd)**

*(a) Goodwill (cont'd)*

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative fair values of the operations disposed off and the portion of the cash-generating unit retained.

*(b) Other intangible assets*

Intangible assets acquired separately or in a business combination are measured initially at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(i) Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Deferred development costs are not amortised as it is not yet available for use or sale. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

(ii) Developed /Unpatented technology

Developed or unpatented technology acquired in business combinations have finite useful lives and are amortised on a straight-line basis over 7-14 years.

(iii) Customer list

Customer lists acquired in business combinations have finite useful lives and are amortised on a straight-line basis over 3 to 5 years.

**2. Summary of significant accounting policies (cont'd)**

**2.8 Intangible assets (cont'd)**

*(b) Other intangible assets (cont'd)*

(iv) Club membership

Club membership was acquired separately and is not amortised as it has an indefinite life.

(v) Computer software

Computer software acquired separately is measured initially at cost. Following initial recognition, computer software is stated at cost less accumulated amortisation and impairment losses, if any. Computer software is amortised using the straight line method over its estimated useful life of 5 years and assessed for impairment whenever there is an indication that the computer software may be impaired.

**2.9 Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset (i.e. goodwill acquired in a business combination) is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the statement of comprehensive income as 'impairment losses'.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in the statement of comprehensive income.

**2.10 Investment in associates**

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent entity. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

**2. Summary of significant accounting policies (cont'd)**

**2.10 Investment in associates (cont'd)**

Under the equity method, investments 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. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. Goodwill included in the carrying amount of the investment in associate is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment is recognised, the amount is not allocated to the goodwill of the associate.

The Group's share of an associate's profits or losses after tax is recognised in the statement of comprehensive income, and its share of movements in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the investment. Unrealised gains and losses resulting from the transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

After application of the equity method, the Group determines whether it is necessary to recognise and additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date 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 the "share of profit of an associate" in the statement of 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.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

**2.11 Joint venture**

The Group has interests in joint ventures. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

A jointly controlled operation involves the use of assets or other resources of the joint venturers rather than the establishment of a separate entity. The Group recognises its interest in jointly controlled operations using proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint operations with the similar items, line by line, in its consolidated financial statements. The joint venture is proportionately consolidated from the date the Group obtains joint control until the date the Group ceases to have joint control over the joint venture.

Upon loss of joint control, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognised in the statement of comprehensive income.

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest. Jointly controlled entity is equity accounted for by the Group.

Investment in joint ventures in the Company's financial statements is stated at cost less impairment losses.

2. **Summary of significant accounting policies (cont'd)**

**2.12 Financial assets**

*Initial recognition and measurement*

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

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

*Subsequent measurement*

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

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit and loss. Financial assets held for trading are derivatives (including separated embedded derivatives) or are acquired principally for the purpose of selling it in the near term.

The Group has not designated any financial assets upon initial recognition at fair value through profit and loss.

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

*(b) Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, such assets are carried at amortised cost using the effective interest method, less impairment losses. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. These are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current.

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

Available-for-sale financial assets are financial assets that are not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in the statement of comprehensive income. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the statement of comprehensive income as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

2. **Summary of significant accounting policies (cont'd)**

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

*De-recognition*

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

**2.13 Impairment of financial assets**

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the statement of comprehensive income.

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

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

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

**2.14 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management. Bank overdrafts are included within interest-bearing liabilities in current liabilities in the balance sheet.

**2.15 Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw material: purchase costs on a first-in first-out basis.
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a first-in first-out basis.

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

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

**2. Summary of significant accounting policies (cont'd)**

**2.16 Construction contracts**

Contract revenue and contract costs are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date, when the outcome of a construction contract can be estimated reliably. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

The stage of completion is measured by the proportion that contract costs incurred to date bear to the estimated total contract cost. Only costs that reflect services performed are included in the estimated total costs of the contract.

An expected loss on the construction contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

**2.17 Provisions**

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

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision for warranty is recognised for all products under warranty at the balance sheet date based on historical experience.

**2.18 Government grants**

Government grants are recognised in the balance sheet as a liability when the grant is received.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to deferred income and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

**2.19 Financial liabilities**

*Initial recognition and measurement*

Financial liabilities 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 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.

**2. Summary of significant accounting policies (cont'd)**

**2.19 Financial liabilities (cont'd)**

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:-

(a) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

(b) *Other financial liabilities*

After initial recognition, other financial liabilities 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, and through the amortisation process.

*De-recognition*

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in statement of comprehensive income.

**2.20 Borrowing costs**

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 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.

**2. Summary of significant accounting policies (cont'd)**

**2.21 Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

*Group as a lessee*

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments at the inception of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the statement of comprehensive income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

*Group as a lessor*

Leases where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item is accounted for in accordance with the Group's policy for sales of goods. Cost incurred in connection with negotiating and arranging the finance lease is recognised as an expense when the selling profit is recognised.

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same bases as rental income. The accounting policy for rental income is set out in note 2.24.

**2.22 Employee benefits**

*(a) Wages and salaries, annual and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the balance sheet date are recognised in respect of employees' services up to the reporting date and measured at the amounts expected to be paid when liabilities are settled. Liabilities for non accumulating leave are recognised when the leave is taken and measured at the rates paid or payable.

*(b) Long service leave*

The liability for long service leave, applicable to Australian subsidiaries, is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the balance sheet date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

2. **Summary of significant accounting policies (cont'd)**

**2.22 Employee benefits (cont'd)**

(c) *Superannuation*

The Group participates in the national pension scheme as defined by the laws of the countries in which it has operations.

Contributions are made by the Group, for its Australian subsidiaries, to employee accumulation superannuation funds.

The Group's companies in Singapore make contributions to the Central Provident Fund scheme, a defined contribution pension scheme.

The subsidiary company incorporated and operating in the People's Republic of China ("PRC") is required to provide certain staff pension benefits to its employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulators and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees.

Contributions to defined contribution pension schemes are recognised as an expenses in the period in which the related services is performed.

(d) *Employee share option plan*

Employees (including key management personnel) of the Group receive remuneration in the form of share options as consideration for service rendered. The cost of these equity-settled share based payment transactions with employees is measured by reference to the fair value of the options at the date on which the options are granted. This cost is recognised in the statement of comprehensive income, with a corresponding increase in the employee share option reserve, over the vesting period. The cumulative expenses 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 charge or credit to the statement of comprehensive income for a period represents the movement in cumulative expense recognised as at beginning and end of that period and is recognised in employee costs.

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 and/or service conditions are satisfied. The employee share option reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the employee share option reserve is transferred to share capital as new shares are issued.

**2.23 Derivative financial instruments**

The Group uses derivative financial instruments to hedge its risks associated with foreign currency. Such derivative financial instruments are classified as financial assets or liabilities at fair value through profit and loss and are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date.

Any gains or losses arising from changes in fair value on derivative financial instruments are taken to the statement of comprehensive income.

2. **Summary of significant accounting policies (cont'd)**

### 2.24 Revenue recognition

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

*Sale of goods*

Revenue on sale of goods are recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer, which generally coincides with delivery and acceptance of the goods sold.

*Services rendered*

Revenue from services rendered are recognised upon performance of services and the delivery to customers.

*Revenue recognised on projects*

Revenue on contract jobs are recognised using the percentage of completion method. The stage of completion is measured using the proportion of costs incurred to the estimated total costs to complete the project. Losses, if any, are immediately recognised when their existence is foreseen.

*Interest income*

Interest income is recognised using the effective interest method.

*Dividends*

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

*Rental income*

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

*Commission income*

Commission income is recognised on an accrual basis.

### 2.25 Taxation

*(a) Current tax*

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. **Summary of significant accounting policies (cont'd)**

**2.25 Taxation (cont'd)**

(b) *Deferred tax*

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

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

- When the deferred income 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

- When the taxable temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, 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 income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- When the deferred income 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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

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 income taxes relate to the same taxable entity and the same taxation authority.

(c) *Goods and service tax*

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

- Where the goods and services tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the goods and services tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of goods and services tax included.

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

**2. Summary of significant accounting policies (cont'd)**

**2.26 Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**2.27 Earnings per share**

*(a) Basic earnings per share*

Basic earnings per share is determined by dividing net profit attributable to members of the Company by the weighted average number of ordinary shares outstanding during the year.

*(b) Diluted earnings per share*

Diluted earnings per share is determined by dividing the net profit attributable to members of the Company by the adjusted weighted average number of ordinary shares which takes into account the effects of all dilutive potential ordinary shares which comprise share options granted to employees.

**2.28 Related parties**

A related party is defined as follows:

*(a) a person or a close member of that person's family is related to the Group and Company if that person:*

(i) Has control or joint control over the Company;

(ii) Has significant influence over the Company; or

(iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

*(b) An entity is related to the Group and the Company if any of the following conditions applies:*

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of a member of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**2. Summary of significant accounting policies (cont'd)**

**2.29 Critical accounting estimates and judgments**

The preparation of the Group's 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 reporting date. Although management continually evaluates its judgements and estimates, 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.

*(a) Key sources of estimation uncertainty*

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the balance sheet reported in future periods.

(i) Useful lives of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight-line basis over the property, plant and equipment's estimated economic useful lives. Management estimates the useful lives of these property, plant and equipment to be within 1 to 32 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment at the balance sheet date is disclosed in note 8 to the financial statements.

(ii) 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 and other intangibles with indefinite lives are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

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 9 to the financial statements.

(iii) Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivable at the balance sheet date is disclosed in note 21 to the financial statements.

**2. Summary of significant accounting policies (cont'd)**

**2.29 Critical accounting estimates and judgments (cont'd)**

*(a) Key sources of estimation uncertainty (cont'd)*

(iv) Construction contracts

The Group recognises contract revenue by reference to the stage of completion of the contract activity at the balance sheet date, when the outcome of a construction contract can be estimated reliably. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Significant assumptions are required to estimate the total contract costs that will affect the stage of completion. The estimates are made based on past experience and knowledge of the project engineers. The carrying amounts of assets and liabilities arising from construction contracts at the balance sheet date are disclosed in note 15 to the financial statements.

*(b) Judgements made in applying accounting policies*

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

*Income taxes*

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables and deferred tax liabilities at 30 June 2011 was S$2,405,601 (2010: S$1,747,328) and S$2,458,870 (2010: S$1,310,446) respectively. The Group also has deferred tax assets of S$839,863 (2010: S$519,539) as at 30 June 2011.

**3. Segment information**

***Business segments***

*Identification of reportable segments*

The group has identified its operating segments based on internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources. The operating segments identified are as follows:

- Offshore Marine, Oil and Gas Machinery – manufacture and supply of deck machinery, gas metering stations, offshore structures for underwater robots and related equipment, parts and services.
- Construction Equipment – manufacture and supply of concrete mixers and foundation equipment, including equipment rental, parts and related services.
- Precision Engineering and Automation – manufacture of precision and automation equipment, including equipment related parts and engineering services.
- Industrial and Mobile Hydraulics – supply of hydraulic drive systems, parts and services.

*Corporate charges*

Unallocated expenses comprise mainly non-segmental expenses such as head office expenses, interest and income tax which are not allocated to operating segments.

(In Singapore dollars)

3. **Segment information (cont'd)**

***Business segments (cont'd)***

The following tables present revenue and profit information regarding operating segments for the years ended 30 June 2011 and 2010.

| | Offshore marine, oil and gas machinery | Construction equipment | Precision engineering and automation | Industrial and mobile hydraulics | Consolidated |
|---|---|---|---|---|---|
| | S$ | S$ | S$ | S$ | S$ |
| **Year ended 30 June 2011** | | | | | |
| **Revenue** | | | | | |
| Sales to external customers | 58,334,140 | 54,732,426 | 30,481,800 | 2,895,840 | 146,444,206 |
| Other revenue | 80 | 352,439 | 113,602 | 8 | 466,129 |
| Inter-segment sales | – | 144,183 | 53,940 | 311,597 | 509,720 |
| Total segment revenue | 58,334,220 | 55,229,048 | 30,649,342 | 3,207,445 | 147,420,055 |
| Inter-segment elimination | | | | | (509,720) |
| Unallocated revenue | | | | | 77,345 |
| Interest income | | | | | 206,837 |
| **Total consolidated revenue** | | | | | 147,194,517 |
| | | | | | |
| **Results** | | | | | |
| Segment results | 12,023,185 | 7,103,321 | 1,721,424 | 737,865 | 21,585,795 |
| Unallocated revenue | | | | | 77,345 |
| Unallocated expenses | | | | | (3,090,890) |
| Share of results of associates | | | | | (892,499) |
| Profit before tax and finance cost | | | | | 17,679,751 |
| Finance costs | | | | | (1,078,964) |
| Interest income | | | | | 206,837 |
| **Profit before taxation** | | | | | 16,807,624 |
| Income tax expense | | | | | (2,683,624) |
| **Net profit after taxation** | | | | | 14,124,000 |
| | | | | | |
| **Other segment information** | | | | | |
| Capital expenditure | | | | | |
| - property, plant and equipment | 299,089 | 7,214,739 | 648,633 | 759 | 8,163,220 |
| - intangible assets | 189,610 | 322,077 | 3,839,066 | – | 4,350,753 |
| | | | | | 12,513,973 |
| | | | | | |
| Depreciation and amortisation | 504,702 | 2,686,219 | 1,059,481 | 17,700 | 4,268,102 |
| Other non-cash expenses/(revenue) | 668,602 | 811,991 | 181,497 | (22,536) | 1,639,554 |

(In Singapore dollars)

**3. Segment information (cont'd)**

***Business segments (cont'd)***

| | Offshore marine, oil and gas machinery S$ | Construction equipment S$ | Precision engineering and automation S$ | Industrial and mobile hydraulics S$ | Consolidated S$ |
|---|---|---|---|---|---|
| **Year ended 30 June 2010** | | | | | |
| **Revenue** | | | | | |
| Sales to external customers | 46,869,880 | 42,486,989 | 14,660,170 | 3,675,311 | 107,692,350 |
| Other revenue | 19,201 | 355,749 | 17,292 | 23 | 392,265 |
| Inter-segment sales | – | 16,131 | 396,975 | 291,494 | 704,600 |
| Total segment revenue | 46,889,081 | 42,858,869 | 15,074,437 | 3,966,828 | 108,789,215 |
| Inter-segment elimination | | | | | (704,600) |
| Unallocated revenue | | | | | 50,000 |
| Interest income | | | | | 53,190 |
| **Total consolidated revenue** | | | | | 108,187,805 |
| **Results** | | | | | |
| Segment results | 9,538,410 | 3,477,140 | 623,636 | 1,022,028 | 14,661,214 |
| Unallocated revenue | | | | | 50,000 |
| Unallocated expenses | | | | | (2,191,476) |
| Profit before tax and finance cost | | | | | 12,519,738 |
| Finance costs | | | | | (759,291) |
| Interest income | | | | | 53,190 |
| **Profit before taxation** | | | | | 11,813,637 |
| Income tax expense | | | | | (1,600,834) |
| **Net profit after taxation** | | | | | 10,212,803 |
| **Other segment information** | | | | | |
| Capital expenditure | | | | | |
| - property, plant and equipment | 347,323 | 9,216,398 | 674,345 | 696 | 10,238,762 |
| - intangible assets | – | 118,105 | 96,389 | – | 214,494 |
| | | | | | 10,453,256 |
| Depreciation and amortisation | 453,169 | 2,107,246 | 750,188 | 18,615 | 3,329,218 |
| Other non-cash (revenue)/expenses | (247,948) | 207,977 | (2,984) | – | (42,955) |

(In Singapore dollars)

3. **Segment information (cont'd)**

***Geographical segments***

The Group's geographical segments are determined based on location of Group's assets.

The following table presents revenue and certain assets information regarding geographical segments for the years ended 30 June 2011 and 2010.

**Year ended 30 June 2011**

| Revenue | Australia S$ | Malaysia S$ | Singapore S$ | China S$ | United States S$ | Bangladesh S$ | Thailand S$ | Others S$ | Total S$ |
|---|---|---|---|---|---|---|---|---|---|
| Sales to external customers | 22,569,448 | 16,216,404 | 52,429,743 | 21,409,228 | 14,660,344 | 8,335,636 | 3,049,923 | 7,773,480 | 146,444,206 |
| Other revenue from external customers | 20,870 | 5,919 | 517,305 | 136,833 | – | – | 6,993 | 62,391 | 750,311 |
| | | | | | | | | | 147,194,517 |
| **Other segment information** | | | | | | | | | |
| Segment non-current assets | 4,615,922 | 302,819 | 31,839,393 | 278,365 | – | – | 8,334,491 | 755,103 | 46,126,093 |
| Investment in associates | | | | | | | | | 4,845,458 |
| Unallocated assets | | | | | | | | | 840,383 |
| | | | | | | | | | 51,811,934 |
| Capital expenditure | | | | | | | | | |
| - property, plant and equipment | 310,100 | 104,690 | 7,517,162 | 89,238 | – | – | 105,674 | 70,307 | 8,197,171 |
| - intangible assets | 322,077 | – | 3,845,666 | – | – | – | – | 189,610 | 4,357,353 |
| | | | | | | | | | 12,554,524 |

(In Singapore dollars)

## 3. Segment information (cont'd)

*Geographical segments (cont'd)*

**Year ended 30 June 2010**

| **Revenue** | **Australia** S$ | **Malaysia** S$ | **Singapore** S$ | **China** S$ | **United States** S$ | **Bangladesh** S$ | **Thailand** S$ | **Others** S$ | **Total** S$ |
|---|---|---|---|---|---|---|---|---|---|
| Sales to external customers | 18,414,924 | 10,377,514 | 33,534,353 | 20,344,164 | 9,814,129 | 106,110 | 2,869,007 | 12,232,149 | 107,692,350 |
| Other revenue from external customers | 31,717 | – | 267,390 | 157,401 | 20,800 | – | 4,885 | 13,262 | 495,455 |
| | | | | | | | | | 108,187,805 |
| **Other segment information** | | | | | | | | | |
| Segment non-current assets | 4,322,297 | – | 25,742,832 | 253,246 | – | – | 9,453,706 | 690,859 | 40,462,940 |
| Investment in joint venture | | | | | | | | | 80,001 |
| Unallocated assets | | | | | | | | | 520,059 |
| | | | | | | | | | 41,063,000 |
| Capital expenditure | | | | | | | | | |
| - property, plant and equipment | 14,447 | – | 9,346,687 | 3,897 | – | – | 868,714 | 34,995 | 10,268,740 |
| - intangible assets | 112,364 | – | 263,468 | – | – | – | – | – | 375,832 |
| | | | | | | | | | 10,644,572 |

(In Singapore dollars)

## 4. Revenue, income and expenses

(i) Revenue

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| Sales of goods | 88,111,023 | 67,175,169 |
| Rendering of services | 7,020,127 | 6,141,467 |
| Rental revenue | 4,749,066 | 3,178,559 |
| Revenue recognised on projects | 46,563,990 | 31,197,155 |
| | 146,444,206 | 107,692,350 |

(ii) Other operating income

| | | |
|---|---|---|
| Interest income | 206,837 | 53,190 |
| Commission income | 195,448 | 144,187 |
| Gain on disposal of property, plant and equipment | 19,431 | 19,418 |
| Dividend income on quoted equity investment | 80 | 90 |
| Services rendered | 102,000 | 114,612 |
| Bad debts recovered | – | 318 |
| Government grant | 112,058 | – |
| Gain on disposal of equity interest in subsidiary | 33,203 | – |
| Other revenue | 81,254 | 163,640 |
| | 750,311 | 495,455 |

(iii) Other operating expenses

Included in other operating expenses are the following:

| | | |
|---|---|---|
| Allowance for inventory obsolescence | 42,456 | 44,734 |
| Allowance for doubtful debts – trade | 48,649 | 65,330 |
| Doubtful debts written back | (43,989) | (668,000) |
| Bad debts written off | 12,764 | 20,778 |
| Foreign exchange loss | 129,985 | 526,708 |
| Provision for product warranties, net | 403,684 | 532,903 |
| Loss on disposal of property, plant and equipment | 1,825 | 2,406 |
| Property, plant and equipment written off | 50,648 | 12,903 |
| Investment in joint venture written off | 80,001 | – |
| Development expenditure written off | 325,201 | – |
| Warranty expense charged directly to statement of comprehensive income | 5,352 | – |
| Goodwill written off | 5,212 | – |
| Inventories written off | 1,962 | 981 |

(In Singapore dollars)

## 5. Tax expense

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | S$ | S$ |
| Current income tax | | |
| - Current income tax charge | 2,417,458 | 1,432,102 |
| - Adjustments in respect of previous years | 76,625 | (21,054) |
| Deferred income tax | | |
| - Relating to the origination and reversal of temporary differences | 114,975 | 149,786 |
| - Adjustment in respect of previous years | 74,566 | 40,000 |
| | 2,683,624 | 1,600,834 |

A reconciliation between the tax expense and the product of accounting profit of the Group multiplied by the applicable tax rate for the year ended 30 June was as follows:

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | S$ | S$ |
| Profit before taxation | 16,807,624 | 11,813,637 |
| Tax expense: | | |
| Tax at the domestic rates applicable to profits in the countries where the group operates | 3,308,426 | 2,429,673 |
| Release of deferred tax liability on intangible assets | (92,175) | (72,262) |
| Non-deductible expenses | 227,959 | 59,652 |
| Non-taxable income | (405,590) | (827,496) |
| Partial tax exemption | (110,333) | (65,514) |
| Deferred tax asset not recognised | 43,836 | 300,323 |
| Recognition of deferred tax assets not previously recognised | (30,348) | – |
| Utilisation of deferred tax asset previously not recognised | (149,982) | (60,184) |
| Underprovision in prior years | 151,191 | 18,946 |
| Enhanced tax allowance | (254,058) | (159,844) |
| Others | (5,302) | (22,460) |
| Tax expense | 2,683,624 | 1,600,834 |

The above reconciliation is prepared by aggregating separate reconciliation for each national jurisdiction.

(In Singapore dollars)

**5. Tax expense (cont'd)**

Deferred taxation as at 30 June relates to the following:

| | Consolidated balance sheet | | Consolidated statement of comprehensive income | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | S$ | S$ | S$ | S$ |
| **Deferred tax liabilities** | | | | |
| Differences in depreciation | (1,852,106) | (1,601,077) | 251,029 | 796,129 |
| Intangible assets | (170,294) | (259,067) | (107,385) | (15,880) |
| Acquisition of subsidiary (note 26) | (516,699) | – | – | – |
| Accrual for unconsumed leave | 38,768 | 30,877 | (7,891) | 9,593 |
| Unutilised capital allowances | 30,915 | 499,675 | 468,760 | (433,035) |
| Unutilised tax losses | 10,546 | – | (10,546) | – |
| Others | – | 19,146 | 19,146 | (12,182) |
| | (2,458,870) | (1,310,446) | | |
| **Deferred tax assets** | | | | |
| Unutilised tax losses | 563,577 | 520,415 | (139,504) | (160,715) |
| Unutilised capital allowances | 4,584 | 5,492 | (5,998) | (5,492) |
| Provisions | 525,957 | – | (525,957) | – |
| Accrual for unconsumed leave | 35,370 | 17,920 | (17,450) | (12,366) |
| Differences in depreciation | (241,350) | 1,941 | 243,291 | (3,533) |
| Intangible assets | (48,275) | (33,401) | 14,874 | 33,401 |
| Others | – | 7,172 | 7,172 | (6,134) |
| | 839,863 | 519,539 | 189,541 | 189,786 |

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| The directors estimate that the potential future income tax benefit at 30 June in respect of revenue tax losses not brought to account is | 3,750,000 | 3,130,000 |

The benefit will only be obtained if –

(a) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(c) no changes in tax legislation adversely affect the consolidated entity's ability to realise the benefit.

*Tax Consolidation Legislation*

Zicom Group Limited and its wholly owned Australian subsidiaries have not elected to form a tax consolidated group.

(In Singapore dollars)

## 6. Earnings per share

Earnings per share is calculated by dividing the Group's profit attributable to members of the Company by the weighted average number of shares in issue during the year.

| | | Consolidated 2011 | Consolidated 2010 |
|---|---|---|---|
| | | S$ | S$ |
| (a) | Earnings used in calculating basic and diluted earnings per share | | |
| | Net profit attributable to equity holders of the Parent | 14,087,014 | 10,143,192 |
| | | No. of shares | |
| (b) | Weighted average number of shares for basic earnings per share | 212,924,847 | 210,633,961 |
| | Effect of dilution: | | |
| | Share options (d) | 460,807 | – |
| | Adjusted weighted average number of shares | 213,385,654 | 210,633,961 |
| | | Singapore cents | |
| (c) | Earnings per share | | |
| | Basic | 6.62 | 4.82 |
| | Diluted | 6.60 | 4.82 |

For the year ended 30 June 2010, the basic and diluted earnings per share were the same as share options granted were anti-dilutive.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

(d) Options

Options granted to employees (including KMP) as described in note 25 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

## 7. Dividends

| | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | S$ | S$ |
| Declared and paid during the financial year: | | |
| - Final unfranked dividend for 2009: 0.30 Australian cents per share | – | 771,079 |
| - Interim unfranked dividend for 2010: 0.35 Australian cents per share | – | 940,848 |
| - Final unfranked dividend for 2010: 0.50 Australian cents per share | 1,309,490 | – |
| - Interim unfranked dividend for 2011: 0.45 Australian cents per share | 1,183,509 | – |
| | 2,492,999 | 1,711,927 |
| Proposed but not recognised as a liability as at 30 June: | | |
| - Final unfranked dividend for 2011: 0.55 Australian cents per share (2010: 0.50 Australian cents) | 1,488,000 | 1,301,950 |

After the reporting date, the final dividend for 2011 was approved by the board of directors. These amounts have not been recognised as a liability as at 30 June 2011 but will be brought to account during next financial year.

# Notes to the Consolidated Financial Statements
(In Singapore dollars)



## 8. Property, plant and equipment

| Consolidated | Freehold land | Leasehold properties | Building | Building-in-progress | Machinery under installation | Plant and equipment | Leasehold improvements | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | S$ | S$ | S$ | S$ | S$ | S$ | S$ | S$ | S$ |
| **At 1.7.2009** | 2,353,542 | 10,408,308 | 313,528 | 4,644,458 | 1,672,196 | 16,974,612 | 1,270,020 | 1,937,764 | 39,574,428 |
| Currency realignment | 28,641 | 986 | 3,815 | 56,520 | 20,350 | 72,275 | 3,907 | 16,572 | 203,066 |
| Additions | – | 31,500 | 137,097 | – | – | 9,970,588 | 62,414 | 67,141 | 10,268,740 |
| Disposals | – | – | – | – | – | (511,590) | – | (352,670) | (864,260) |
| Reclassification | – | – | 4,700,978 | (4,700,978) | (1,692,546) | 1,692,546 | – | – | – |
| Reclassification to inventory | – | – | – | – | – | (1,895,669) | – | – | (1,895,669) |
| Write off | – | – | – | – | – | (37,982) | (4,600) | – | (42,582) |
| **At 30.6.2010** | 2,382,183 | 10,440,794 | 5,155,418 | – | – | 26,264,780 | 1,331,741 | 1,668,807 | 47,243,723 |
| Currency realignment | (172,988) | (5,958) | (374,374) | – | – | 45,612 | 14,864 | 18,720 | (474,124) |
| Additions | – | – | 2,606 | – | 28,482 | 7,512,251 | 467,986 | 185,846 | 8,197,171 |
| Disposals | – | – | – | – | – | (13,317) | – | (52,285) | (65,602) |
| Reclassification | – | – | – | – | (8,541) | 8,541 | – | – | – |
| Reclassification to inventory | – | – | – | – | – | (2,239,858) | – | – | (2,239,858) |
| Write off | – | – | – | – | – | (370,405) | (74,573) | (2,786) | (447,764) |
| Acquisition of subsidiaries | – | – | – | – | – | 95,733 | – | 13,844 | 109,577 |
| Disposal of subsidiary | – | – | – | – | – | (11,139) | – | – | (11,139) |
| **At 30.6.2011** | 2,209,195 | 10,434,836 | 4,783,650 | – | 19,941 | 31,292,198 | 1,740,018 | 1,832,146 | 52,311,984 |
| **Accumulated depreciation and impairment** | | | | | | | | | |
| **At 1.7.2009** | – | 2,308,638 | 173,293 | – | – | 6,852,451 | 466,334 | 1,357,172 | 11,157,888 |
| Currency realignment | – | 832 | 5,491 | – | – | 49,136 | (361) | 8,423 | 63,521 |
| Charge for 2010 | – | 270,468 | 204,263 | – | – | 2,273,569 | 313,709 | 159,996 | 3,222,005 |
| Disposals | – | – | – | – | – | (201,655) | – | (151,458) | (353,113) |
| Reclassification to inventory | – | – | – | – | – | (245,267) | – | – | (245,267) |
| Write off | – | – | – | – | – | (26,536) | (3,143) | – | (29,679) |
| **At 30.6.2010** | – | 2,579,938 | 383,047 | – | – | 8,701,698 | 776,539 | 1,374,133 | 13,815,355 |
| Currency realignment | – | (5,121) | (40,492) | – | – | 163,507 | 6,971 | 19,784 | 144,649 |
| Charge for 2011 | – | 270,449 | 251,774 | – | – | 2,936,640 | 364,053 | 141,188 | 3,964,104 |
| Disposals | – | – | – | – | – | (10,292) | – | (52,285) | (62,577) |
| Reclassification to inventory | – | – | – | – | – | (568,987) | – | – | (568,987) |
| Write off | – | – | – | – | – | (357,413) | (37,012) | (2,691) | (397,116) |
| Acquisition of subsidiaries | – | – | – | – | – | 77,431 | – | 288 | 77,719 |
| Disposal of subsidiary | – | – | – | – | – | (3,698) | – | – | (3,698) |
| **At 30.6.2011** | – | 2,845,266 | 594,329 | – | – | 10,938,886 | 1,110,551 | 1,480,417 | 16,969,449 |
| **Net carrying value** | | | | | | | | | |
| **At 30.6.2011** | 2,209,195 | 7,589,570 | 4,189,321 | – | 19,941 | 20,353,312 | 629,467 | 351,729 | 35,342,535 |
| **At 30.6.2010** | 2,382,183 | 7,860,856 | 4,772,371 | – | – | 17,563,082 | 555,202 | 294,674 | 33,428,368 |

(In Singapore dollars)

**8. Property, plant and equipment (cont'd)**

(a) The net book value of property, plant and equipment held under hire purchase are as follows:-

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| Motor vehicles | 50,082 | 89,479 |
| Plant and equipment | 4,790,005 | 2,327,792 |
| | 4,840,087 | 2,417,271 |

(b) During the year, the Group acquired property, plant and equipment with an aggregate cost of S$ 8,197,171 (2010: S$10,268,740) of which S$1,265,007 (2010: S$1,458,063) were acquired by means of hire purchase financing. Cash payments of S$5,416,780 (2010: S$5,964,423) were made to purchase property, plant and equipment. Additions also included an amount S$1,409,110 (2010: S$2,846,254) which was previously included in stock but was converted and capitalised as fixed assets during the current financial year. The balance of S$106,274 (2010: S$nil) relates to provision for reinstatement made in the current financial year.

(c) During the financial year, the Group disposed of property, plant and equipment with an aggregate net book value of S$3,025 (2010: S$511,147). Sales proceeds amounting to S$20,631 (2010: S$528,159) were received in cash.

(d) During the financial year, the Group wrote off property, plant and equipment with an aggregate net book value of approximately S$50,648 (2010: S$12,903).

(e) The net book value of property, plant and equipment pledged as security are as follows:

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| Mortgage of leasehold properties | 3,375,339 | 3,500,737 |
| Mortgage of freehold land and building | 6,398,516 | 7,154,554 |
| | 9,773,855 | 10,655,291 |

(In Singapore dollars)

## 9. Intangible assets

| Consolidated | Customer list S$ | Developed technology S$ | Goodwill S$ | Development expenditure S$ | Club membership S$ | Computer software S$ | Unpatented technology S$ | Total S$ |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **At 1 July 2009** | 901,648 | 1,084,853 | 5,258,572 | 309,931 | 10,628 | 360,444 | – | 7,926,076 |
| Additions | – | – | – | 5,741 | – | 370,091 | – | 375,832 |
| Currency realignment | 7,869 | 22,958 | 64,602 | – | 130 | – | – | 95,559 |
| **At 30 June 2010** | 909,517 | 1,107,811 | 5,323,174 | 315,672 | 10,758 | 730,535 | – | 8,397,467 |
| Additions | – | – | 853,870 | | – | 454,073 | 3,049,410 | 4,357,353 |
| Write off | – | – | – | (315,672) | – | – | – | (315,672) |
| Currency realignment | 17,573 | 44,461 | 245,752 | – | (781) | 11,763 | – | 318,768 |
| **At 30 June 2011** | 927,090 | 1,152,272 | 6,422,796 | – | 9,977 | 1,196,371 | 3,049,410 | 12,757,916 |
| **Accumulated amortisation:** | | | | | | | | |
| **At 1 July 2009** | 499,971 | 472,322 | – | – | – | – | – | 972,293 |
| Amortisation | 137,475 | 163,092 | – | – | – | 90,035 | – | 390,602 |
| **At 30 June 2010** | 637,446 | 635,414 | – | – | – | 90,035 | – | 1,362,895 |
| Currency realignment | – | – | – | – | – | 1,879 | – | 1,879 |
| Amortisation | 139,168 | 168,962 | – | – | – | 200,705 | 127,059 | 635,894 |
| **At 30 June 2011** | 776,614 | 804,376 | – | – | – | 292,619 | 127,059 | 2,000,668 |
| **Net carrying value:** | | | | | | | | |
| **At 30 June 2011** | 150,476 | 347,896 | 6,422,796 | – | 9,977 | 903,752 | 2,922,351 | 10,757,248 |
| **At 30 June 2010** | 272,071 | 472,397 | 5,323,174 | 315,672 | 10,758 | 640,500 | – | 7,034,572 |

| | Customer list | Developed technology | Computer software | Unpatented technology |
|---|---|---|---|---|
| Average remaining Amortisation period (years) - 2011 | 3 | 2 | 3 | 13.4 |
| Average remaining Amortisation period (years) - 2010 | 4 | 3 | 4 | – |

(In Singapore dollars)

9. **Intangible assets (cont'd)**

*Impairment tests for goodwill*

In accordance with AASB 3, the carrying value of the Group's goodwill on acquisition as at 30 June 2011 was assessed for impairment.

| Group | As at 30.6.2011 | As at 30.6.2010 | Basis on which recoverable values are determined | Growth rate per annum 2011 | Growth rate per annum 2010 | Discount rate per annum 2011 | Discount rate per annum 2010 |
|---|---|---|---|---|---|---|---|
| | S$ | S$ | | % | % | % | % |
| ***Carrying value of capitalised goodwill based on cash generating units*** | | | | | | | |
| Sys-Mac Automation Engineering Pte Ltd | 2,974,271 | 2,974,271 | Value-in-use | 5% - 15% | 5% - 15% | 12% | 11% |
| Zicom Group Limited | 2,593,618 | 2,347,866 | Value-in-use | 5% | 3% - 5% | 17% | 18% |
| Orion Systems Integration Pte Ltd | 664,260 | – | Value-in-use | 2% | – | 15.3% | – |
| PT Putra Dharma Harmoteknik | 189,610 | – | Value-in-use | 5% | – | 17% | – |
| | 6,421,759 | 5,322,137 | | | | | |

Goodwill is allocated for impairment testing purposes to the individual entity which is also the cash generating unit ("CGU").

The recoverable amount of each CGU is determined based on value-in-use calculations using cashflow projections based on financial budgets approved by management covering one or five year period. Management determined budgeted gross margin in the financial budgets based on past performance and its expectation of market development. Cash flows beyond the one or five year period are extrapolated using the growth rates stated above.

The calculations of value in use for the CGUs are most sensitive to the following assumptions:-

Budgeted gross margins – Gross margins are based on average values achieved in the three years preceding the start of the budget period or if unavailable, based on management assessment of the markets. These are increased over the budget period for anticipated efficiency improvements.

Growth rates – The forecasted growth rates are based on management's assessment of the markets and do not exceed the long-term average growth rate for the industries relevant to the CGUs.

Pre-tax discount rates – Discount rate reflect the current market assessment of the risk specific to the CGUs. In determining appropriate discount rates for each unit, regard has been given to the weighted average cost of capital of the entity as a whole and the yield on a 15 year government bond at the beginning of the budgeted year.

*Sensitivity to changes in assumption*

Management believe that no reasonably possible change in any of the above key assumptions would cause the carrying values of these CGUs to materially exceed its recoverable amount.

No impairment loss was required for the financial years ended 30 June 2011 and 2010 for the goodwill as their recoverable values were in excess of their carrying values.

(In Singapore dollars)

## 10. Investment in subsidiaries

| | Parent Entity 2011 | Parent Entity 2010 |
|---|---|---|
| | S$ | S$ |
| Investment in controlled entities, at cost | 54,543,877 | 53,523,877 |
| Less: Impairment loss | (5,250,982) | (5,388,942) |
| | 49,292,895 | 48,134,935 |

The consolidated financial statements include the financial statements of Zicom Group Limited and the subsidiaries listed in the following table.

The interest in each controlled entity has been adjusted to assessed recoverable amounts on the basis of their underlying assets.

The details of controlled entities are as follows:

| Name of Company | Country of incorporation | Carrying value of Parent Entity Investment 2011 | Carrying value of Parent Entity Investment 2010 | Percentage of equity held by the Group 2011 | Percentage of equity held by the Group 2010 |
|---|---|---|---|---|---|
| | | S$ | S$ | % | % |
| ***Held by the Company:*** | | | | | |
| Cesco Australia Limited | Australia | 5,118,269 | 3,960,309 | 100 | 100 |
| Zicom Holdings Pte Ltd | Singapore | 44,174,626 | 44,174,626 | 100 | 100 |
| ***Controlled entities held by subsidiary companies:*** | | | | | |
| Cesco Equipment Pty Ltd | Australia | – | – | 100 | 100 |
| Zicom Pte Ltd | Singapore | – | – | 100 | 100 |
| Zicom Equipment Pte Ltd | Singapore | – | – | 100 | 100 |
| Foundation Associates Engineering Pte Ltd | Singapore | – | – | 100 | 100 |
| Foundation & Associate Pte Ltd | Singapore | – | – | 100 | 100 |
| Sys-Mac Automation Engineering Pte Ltd | Singapore | – | – | 100 | 100 |
| MTA-Sysmac Automation Pte Ltd | Singapore | – | – | 51 | 51 |
| Integrated Automation Systems Pte Ltd | Singapore | – | – | 100 | – |
| Orion Systems Integration Pte Ltd | Singapore | – | – | 54 | – |
| PT Sys-Mac Indonesia | Indonesia | – | – | 100 | 100 |
| PT Putra Dharma Harmoteknik | Indonesia | – | – | 60 | – |
| Zicom Cesco Engineering Co. Ltd | Thailand | – | – | 100 | 100 |
| Zicom Cesco Thai Co. Ltd | Thailand | – | – | 100 | 100 |
| Zicom Thai Hydraulics Co. Ltd | Thailand | – | – | 100 | 100 |
| FA Geotech Equipment Sdn Bhd | Malaysia | – | – | 100 | – |
| Cesco Kemajuan Sdn Bhd | Malaysia | – | – | 100 | 100 |
| Cesco Systems & Engineering Sdn Bhd | Malaysia | – | – | 88 | 88 |
| Hangzhou Cesco Machinery Co Ltd | China | – | – | 100 | 100 |
| | | 49,292,895 | 48,134,935 | | |

(In Singapore dollars)

**10. Investment in subsidiaries (cont'd)**

*Entity subject to class order relief*

Pursuant to the Class Order 98/1418, relief has been granted to Cesco Australia Limited from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports.

As a condition for the Class Order, Cesco Australia Limited entered into a Deed of Cross Guarantee on 15 May 2008. The effect of the deed is that Zicom Group Limited has guaranteed to pay any deficiency in the event of winding up of Cesco Australia Limited or if Cesco Australia Limited does not meet its obligations under the terms of overdraft, loans, leases or other liabilities subject to the guarantee. Cesco Australia Limited also has given a similar guarantee in the event that Zicom Group Limited is wound up or if it does not meet its obligations under the terms of overdraft, loans and leases or other liabilities subject to the guarantee.

The consolidated Income Statement and Balance Sheet of the entities that are members of the Closed Group are as follows:

***Consolidated Income Statement***

| | Closed Group | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| Profit from continuing activities before taxation | 2,818,002 | 1,074,462 |
| Income tax expense | – | – |
| Net profit for the year | 2,818,002 | 1,074,462 |
| Accumulated losses at the beginning | (25,405,882) | (24,788,610) |
| Dividends provided for or paid | (2,492,999) | (1,711,927) |
| Expiry of employee share options | – | 20,193 |
| Accumulated losses at the end | (25,080,879) | (25,405,882) |

(In Singapore dollars)

## 10. Investment in subsidiaries (cont'd)

*Consolidated Balance Sheet*

| | Closed Group | |
|---|---|---|
| | 2011 | 2010 |
| | S$ | S$ |
| **Non-current assets** | | |
| Property, plant and equipment | 1,415,480 | 710,857 |
| Intangible assets | 849,722 | 537,025 |
| Investment in subsidiaries | 44,174,626 | 44,174,626 |
| | 46,439,828 | 45,422,508 |
| **Current assets** | | |
| Cash and bank balances | 1,364,811 | 1,266,583 |
| Inventories | 4,627,676 | 3,622,207 |
| Trade and other receivables | 7,655,916 | 6,382,707 |
| | 13,648,403 | 11,271,497 |
| **Current liabilities** | | |
| Payables | 9,329,732 | 5,773,508 |
| Interest-bearing liabilities | 2,891,061 | 3,891,140 |
| Provisions | 199,607 | 176,753 |
| Unearned income | 61,030 | 38,271 |
| | 12,481,430 | 9,879,672 |
| **NET CURRENT ASSETS** | 1,166,973 | 1,391,825 |
| **Non-current liabilities** | | |
| Interest-bearing liabilities | 242,033 | 342,884 |
| Provisions | 195,301 | 130,797 |
| | 437,334 | 473,681 |
| **NET ASSETS** | 47,169,467 | 46,340,652 |
| **Equity attributable to equity holders of the Company** | | |
| Contributed equity | 70,991,148 | 70,999,016 |
| Reserves | 1,259,198 | 747,518 |
| Accumulated losses | (25,080,879) | (25,405,882) |
| **TOTAL EQUITY** | 47,169,467 | 46,340,652 |

**(In Singapore dollars)**

**11. Investment in associates**

(a) Investment details

| | 2011<br>S$ | 2010<br>S$ |
|---|---|---|
| Biobot Surgical Pte Ltd | 2,838,595 | – |
| Curiox Biosystems Pte Ltd | 2,006,863 | – |
| | 4,845,458 | – |

(b) Movements in the carrying amount of the Group's investment in associates

| **Biobot Surgical Pte Ltd** | 2011<br>S$ | 2010<br>S$ |
|---|---|---|
| At date of acquisition, 1 July 2010 | 3,500,000 | – |
| Share of losses after income tax | (661,405) | – |
| At 30 June 2011 | 2,838,595 | – |

Zicom Holdings Pte Ltd ("ZHPL"), a wholly-owned subsidiary company of Zicom Group Limited, acquired 46.67% equity interest in Biobot Surgical Pte Ltd on 1 July 2010. The total cost of the investment was S$3,500,000 made up of S$500,000 for the purchase of shares from an existing shareholder and S$3,000,000 as direct investment in the company. ZHPL is committed to inject cash for its direct investment in tranches over a period of 36 months.

As at 30 June 2011, included in the cost of investment is an interest-bearing loan of S$1,500,000 paid in advance against investment tranche dates. Please refer to note 23 for more details. A balance of S$500,000 representing the last tranche due in December 2012 has not been advanced.

| **Curiox Biosystems Pte Ltd** | 2011<br>S$ | 2010<br>S$ |
|---|---|---|
| At date of acquisition, 2 Nov 2010 | 1,706,227 | – |
| Additional investment during the period | 531,730 | – |
| Share of losses after income tax | (231,094) | – |
| At 30 June 2011 | 2,006,863 | – |

On 2 November 2010, Zicom Holdings Pte Ltd ("ZHPL") acquired 26.97% equity interest in Curiox Biosystems Pte Ltd ("Curiox").

ZHPL is committed to inject an additional of S$998,400 via the exercise of the symmetrical cross call and put options on Curiox.

Curiox issued 3 put options (P1, P2 and P3) for $499,200 each for 104,000 preference shares at $4.80 each to ZHPL. These 3 put options P1, P2 and P3 shall be exercised by 1 April 2011, 1 October 2011 and 1 April 2012 respectively.

Curiox concurrently granted 3 call options to ZHPL (C1, C2 and C3) for $499,200 each for 104,000 preference shares at $4.80 each on the same dates as the put options (P1, P2 and P3). ZHPL has on 31 March 2011 exercised the first call option increasing its equity interest held to 32.78% as at 30 June 2011.

The put options are symmetrical cross options such that the exercise of one option shall automatically render the other symmetrical option to lapse.

(In Singapore dollars)

**11. Investment in associates (cont'd)**

(c) Summarised financial information

The following table illustrates summarised financial information relating to the Group's associates:

Extract from the associates' balance sheet:

| | 2011<br>S$ | 2010<br>S$ |
|---|---|---|
| Current assets | 2,031,917 | – |
| Non-current assets | 6,348,119 | – |
| | 8,380,036 | – |
| Current liabilities | (592,789) | – |
| Net assets | 7,787,247 | – |

Extract from the associates' statement of comprehensive income:

| | 2011<br>S$ | 2010<br>S$ |
|---|---|---|
| **Results:** | | |
| Revenue | 164,436 | – |
| Net losses | (2,479,265) | – |

**12. Non-current assets - others**

| | Consolidated | |
|---|---|---|
| | 2011<br>S$ | 2010<br>S$ |
| Interest in joint venture (unquoted, at cost) | – | 80,001 |
| Quoted equity investments | 520 | 520 |
| | 520 | 80,521 |

(a) Details of joint venture companies

| Name of company (Country of incorporation) | Principal activities (Place of business) | Cost | | Percentage of equity held by the Group | |
|---|---|---|---|---|---|
| | | 2011<br>S$ | 2010<br>S$ | 2011<br>% | 2010<br>% |
| SP-Zicom Pte Ltd (Singapore) | Register trademarks and patents and to commercialise the inventions (Dormant) | – | 80,001 | 50% | 50% |
| PDH-Zicom Joint Operation | Design and build a Condensate Recovery Plant (Indonesia) | – | – | – | 60% |
| | | – | 80,001 | | |

(In Singapore dollars)

**12. Non-current assets – others (cont'd)**

(b) Jointly controlled operations

(i) The Group's share of the consolidated results of the joint venture for the year is as follows:

| | Consolidated 2011 S$ | Consolidated 2010 S$ |
|---|---|---|
| Revenue | – | 1,346,260 |
| Other revenue | 3 | 66 |
| Expenses | (81,059) | (1,155,534) |
| (Loss)/ profit before taxation | (81,056) | 190,792 |
| Taxation | – | – |
| (Loss)/ profit after taxation | (81,056) | 190,792 |

(ii) The Group's share of the consolidated assets and liabilities of the joint venture is as follows:

| | 2011 S$ | 2010 S$ |
|---|---|---|
| Current assets | – | 845,847 |
| Current liabilities | – | (87,753) |

(iii) During the year ended 30 June 2011, the project undertaken by this jointly controlled operation has been completed and accordingly this joint venture has been dissolved.

(c) Jointly controlled entity

The summarised financial information of the joint venture are as follows:

| | Consolidated 2011 S$ | Consolidated 2010 S$ |
|---|---|---|
| Assets and liabilities: | | |
| Current assets | 14,908 | 19,883 |
| Current liabilities | (3,138) | (2,009) |
| Results: | | |
| Revenue | – | – |
| Expenses | 6,104 | 40,786 |

For the year ended 30 June 2011, this investment in jointly controlled entity has been written off to the statement of comprehensive income as the Group no longer has the intention to commercialise the inventions held by this joint venture.

(In Singapore dollars)

## 13. Inventories

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | S$ | S$ |
| Raw materials, at net realisable value | 3,108,754 | 2,045,868 |
| Raw materials, at cost | 1,920,580 | 1,772,949 |
| Work-in-progress, at cost | 11,936,204 | 3,920,411 |
| Trading stocks, at cost | 11,873,058 | 10,996,106 |
| Trading stocks, at net realisable value | 298,161 | 2,005 |
| Stocks-in-transit, at cost | 1,169,398 | 1,179,353 |
| Total inventories at lower of cost and net realisable value | 30,306,155 | 19,916,692 |

Inventories recognised as cost of sales for the year ended 30 June 2011 totalled S$101,639,411 (2010: S$74,871,792) for the Group.

## 14. Trade and other receivables

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | S$ | S$ |
| Trade receivables (a) | 24,942,953 | 22,295,234 |
| Allowance for impairment loss (b) | (140,662) | (196,797) |
| | 24,802,291 | 22,098,437 |
| Lease receivable (c) | 315,697 | 33,680 |
| Advance payments to suppliers | 1,066,337 | 2,457,963 |
| Amount due from customers for contract work (note 15) | 5,960,895 | 4,921,145 |
| Deposits | 204,499 | 98,229 |
| Related party receivables (d): | | |
| - Joint venture (non-trade) | – | 320,092 |
| - Associates (non-trade) | 33,182 | – |
| - Other related parties (non-trade) | – | 5,521 |
| Tax recoverable | 142,358 | 35,663 |
| Other receivables (e) | 1,629,317 | 2,149,194 |
| | 34,154,576 | 32,119,924 |

(a) Please refer to note 21 for the ageing analysis of trade receivables past due but not impaired.

(b) Allowance for impairment loss

Trade and other receivables are non-interest bearing and are generally due when invoiced or on 30 days term. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

(In Singapore dollars)

**14. Trade and other receivables (cont'd)**

(b) Allowance for impairment loss (cont'd)

The group has trade receivables that are impaired at the balance sheet date and the movements of the allowance account used to record the impairment are as follows:

| | Consolidated Individually impaired 2011 | Consolidated Individually impaired 2010 |
|---|---|---|
| | S$ | S$ |
| Trade receivables - nominal amounts | 140,662 | 207,201 |
| Less: allowance for impairment | (140,662) | (196,797) |
| | – | 10,404 |
| Movements in allowance account: | | |
| As at 1 July | 196,797 | 814,187 |
| Charge for the year | 48,649 | 65,330 |
| Written off | (63,940) | (11,676) |
| Write back | (43,989) | (668,000) |
| Currency realignment | 3,145 | (3,044) |
| As at 30 June | 140,662 | 196,797 |

(c) Included in the trade debtors are finance lease receivables amounting to S$315,697 (2010: S$33,680) as one of the subsidiary companies leases equipment to third parties under finance lease. Future minimum lease payments receivable together with the present value of the net minimum lease payments receivable are as follows:

| Consolidated | Minimum lease payments receivable 2011 S$ | Present value of receivable 2011 S$ | Minimum lease payments receivable 2010 S$ | Present value of receivable 2010 S$ |
|---|---|---|---|---|
| Due within 1 year | 329,905 | 315,697 | 33,680 | 33,680 |
| After 1 year but not more than 5 years | 27,492 | 26,310 | – | – |
| Total minimum lease payments | 357,397 | 342,007 | 33,680 | 33,680 |
| Less: Amount representing finance charges | (15,390) | – | – | – |
| | 342,007 | 342,007 | 33,680 | 33,680 |

(d) For related party receivables, please refer to note 23 for terms and conditions.

(e) None of the amounts is interest-bearing as at 30 June 2011. As at 30 June 2010, there was an amount S$500,000 included in other receivables which bore interest at 5% per annum.

(f) Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

(In Singapore dollars)

### 15. Gross amount due from/(to) customers for contract work

| | Consolidated 2011 S$ | Consolidated 2010 S$ |
|---|---|---|
| Contract costs incurred to date | 14,089,801 | 9,037,966 |
| Recognised profits to date | 5,548,548 | 3,718,745 |
| | 19,638,349 | 12,756,711 |
| Progress billings and advances | (15,944,835) | (14,332,469) |
| Amount due from /(to) customers for contract work, net | 3,693,514 | (1,575,758) |
| Gross amount due from customers for contract work (note 14) | 5,960,895 | 4,921,145 |
| Gross amount due to customers for contract work (note 16) | (2,267,381) | (6,496,903) |
| | 3,693,514 | (1,575,758) |
| Advances received included in gross amount due to customers for contract work | 1,278,833 | 4,001,078 |

Revenue recognised on projects is disclosed in note 4.

### 16. Payables

| | Consolidated 2011 S$ | Consolidated 2010 S$ |
|---|---|---|
| Trade payables and other accruals (a) | 28,843,424 | 23,280,062 |
| Amount due to customers for contract work (note 15) | 2,267,381 | 6,496,903 |
| Owing to related parties | | |
| Associate (non-trade) | 500,000 | – |
| Other related parties (trade) (b) | – | 421,844 |
| Other payables | 590 | 19,883 |
| | 31,611,395 | 30,218,692 |

(a) Trade payables

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

(b) Related parties

For related parties' payable, please refer to note 23 for terms and conditions.

(c) Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

(In Singapore dollars)

## 17. Interest-bearing liabilities

| | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | S$ | S$ |
| *Current* | | |
| Bank overdraft (a) | 494,849 | 447,704 |
| Bills payable (b) | 3,141,406 | 5,383,101 |
| Factory loan (c) | 574,911 | 595,144 |
| Machinery loan (d) | 357,326 | 351,450 |
| Invoice finance facility (e) | 2,754,320 | 2,240,080 |
| Bridging loan (f) | – | 1,006,193 |
| Term loan (g) | 2,412,091 | 43,090 |
| Lease liabilities (note 27) | 1,476,236 | 543,059 |
| | 11,211,139 | 10,609,821 |
| *Non-Current* | | |
| Factory loan (c) | 2,430,851 | 3,125,441 |
| Machinery loan (d) | 616,069 | 984,066 |
| Bridging loan (f) | – | 2,390,338 |
| Term loan (g) | 5,055,851 | – |
| Lease liabilities (note 27) | 2,534,757 | 861,216 |
| | 10,637,528 | 7,361,061 |

Details of the secured borrowings are as follows:

(a) Overdraft of S$181,393 (2010: S$447,704) which bears interest at 9.00% (2010: 8.00%) per annum is secured by a mortgage of the subsidiary company's freehold land and buildings at Chonburi, Thailand.

The remaining overdraft of S$313,456 which bears interest rate at 6.00% per annum and is secured by a corporate guarantee given by Zicom Holdings Pte Ltd ("ZHPL").

(b) Bill payable amounting to S$3,141,406 (2010: S$3,845,633) with an average maturity of 2 - 4 months (2010: 3 - 3.5 months) bears interest at 2.10% to 6.00% (2010: 2.15% to 4.39%) per annum. As at 30 June 2011, S$265,367 (2010: S$627,565) of these bills payables were secured by a mortgage of the subsidiary company's freehold land and buildings at Chonburi, Thailand. All bill payables were secured by a corporate guarantee given by either a Thailand subsidiary company or ZHPL.

As at 30 June 2010, bills payable of S$1,537,468 with an average maturity of 1 - 3 months bore interest at 8.00% to 8.44% per annum and were secured by a fixed and floating charge over all the assets of Cesco Australia Limited ("CAL").

(c) Factory loans amounting to S$1,476,051 (2010: S$1,678,109) which made up of current and long-term portions of S$210,466 (2010: S$202,161) and S$1,265,585 (2010: S$1,475,948) respectively is repayable over the remaining 74 monthly instalments at an interest rate of 4.875% (2010: 4.625%) per annum. It is secured by a legal mortgage on ZHPL's leasehold property at No. 9 Tuas Avenue 9 Singapore 639198 and a corporate guarantee from the Company.

The remaining factory loan amounting to S$1,529,711 (2010: S$2,042,476) which is made up of current and non-current portions of S$364,445 (2010: S$392,983) and S$1,165,266 (2010: S$1,649,493) respectively is repayable over the remaining 50 monthly instalments at an interest rate of 5.0% (2010: 4.15%) per annum. It is secured by a legal mortgage of the subsidiary company's freehold land and factory at 700/895 Moo 2, Amata Nakorn Industrial Estate, Chonburi, Thailand and a corporate guarantee from ZHPL.

(In Singapore dollars)

**17. Interest-bearing liabilities (cont'd)**

(d) Machinery loan amounting to S$594,621 (2010: S$879,040) which is made up of current and non-current portions of S$220,585 (2010: S$237,858) and S$374,036 (2010: S$641,182) respectively is repayable over the remaining 32 monthly instalments. This machinery loan which bears interest at 5.0% (2010: 4.15%) per annum is secured by a legal mortgage on the subsidiary company's freehold land and factory at 700/895 Moo 2, Amata Nakorn Industrial Estate, Chonburi, Thailand and a corporate guarantee from ZHPL.

The remaining machinery loan amounting to S$378,774 (2010: S$456,476) which consists of current and long-term portions of S$136,741 (2010: S$113,592) and S$242,033 (2010: S$342,884) respectively bears interest at a fixed rate of 8.62% (2010: 8.62%) per annum. This facility is secured by a fixed and floating charge over all the assets of CAL.

(e) Invoice finance facility which bears floating interest rate at 6.9 to 9.2% (2010: 5.0% to 6.8%) is secured by a fixed and floating charge over all the assets of CAL.

(f) As at 30 June 2010, bridging loan amounting to S$3,396,531 which bore interest at a fixed rate of 5.0% per annum was repayable over 48 monthly instalments and secured by a corporate guarantee given by ZHPL. This bridging loan was fully redeemed during the financial year.

(g) Term loans amounting to S$7,328,078 (2010: S$nil) comprises current and long-term portions of S$2,272,227 (2010: S$nil) and S$5,055,851 (2010: S$nil) respectively which bears floating interest at 2.60% to 2.71% per annum is repayable over 36 or 48 monthly instalments and secured by a corporate guarantee given by ZHPL.

The remaining term loan payable within 12 months amounting to S$139,864 (2010: S$43,090) bears interest at 5.0% (2010: 4.15%) per annum and is secured by a legal mortgage on the subsidiary company's freehold land and factory at 700/895 Moo 2, Amata Nakorn Industrial Estate, Chonburi, Thailand and a corporate guarantee from ZHPL.

(h) Financing facilities available

As at 30 June 2011, the Group had available S$82,965,000 (2010: S$57,787,305) of undrawn committed borrowing facilities.

**18. Provisions**

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| *Current* | | |
| Product warranties | 1,242,721 | 1,029,146 |
| Employee benefits – long service leave | 158,376 | 134,294 |
| | 1,401,097 | 1,163,440 |
| *Non-Current* | | |
| Employee benefits – long service leave | 134,527 | 130,797 |
| Reinstatement costs | 148,775 | 42,501 |
| | 283,302 | 173,298 |

**(In Singapore dollars)**

**18. Provisions (cont'd)**

Movements in provision for warranties :

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| At beginning of year | 1,029,146 | 717,617 |
| Allowance for the year | 567,388 | 722,917 |
| Write back of allowance | (163,704) | (190,014) |
| Write off against allowance | (194,391) | (220,005) |
| Currency realignment | 4,282 | (1,369) |
| At end of year | 1,242,721 | 1,029,146 |
| Warranty expense written off directly to statement of comprehensive income (note 4) | 5,352 | – |

Movements in provision for long service leave :

| | | |
|---|---|---|
| At beginning of year | 265,091 | 249,769 |
| Allowance for the year | 63 | 22,090 |
| Write off against allowance | – | (13,541) |
| Currency realignment | 27,749 | 6,773 |
| At end of year | 292,903 | 265,091 |

Movements in provision for reinstatement costs :

| | | |
|---|---|---|
| At beginning of year | 42,501 | 42,501 |
| Allowance for the year | 106,274 | – |
| At end of year | 148,775 | 42,501 |

In accordance with the lease agreement, the Group must reinstate certain subsidiaries' leased premises in Singapore and Australia to its original condition at the end of the lease term in 2015 and 2014 respectively.

An additional provision of S$106,274 was raised during the year ended 30 June 2011 in respect of the Group's obligation to remove leasehold improvements from these leased premises and is included in the carrying amount of leasehold improvements.

Because of the long-term nature of liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred. The provision has been calculated using a pre-tax discount rate of 6%.

**(In Singapore dollars)**

**19. Contributed equity**

(a) Share Capital

| | Parent Entity | | Consolidated | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | Shares | Shares | S$ | S$ |
| Ordinary fully paid shares | 212,159,087 | 211,697,660 | 36,982,943 | 36,990,811 |

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 restriction.

(b) Movements in ordinary share capital

| | **Company Number of ordinary shares** | **Group** S$ |
|---|---|---|
| At 1 July 2009 | 207,647,660 | 36,470,263 |
| Issue of shares in lieu of cash performance bonus *(i)* | 4,000,000 | 499,100 |
| Issue of shares under Zicom Employee Share and Option Plan *(ii)* | 50,000 | 21,448 |
| At 30 June 2010 | 211,697,660 | 36,990,811 |
| Issue of shares in lieu of cash performance bonus *(iii)* | 3,357,908 | 561,110 |
| Share buy-back *(iv)* | (4,058,981) | (1,107,012) |
| Issue of shares under Zicom Employee Share and Option Plan *(v)* | 1,162,500 | 538,034 |
| At 30 June 2011 | 212,159,087 | 36,982,943 |

*(i) Issue of shares in lieu of cash performance bonus*

On 24 August 2009, the board approved the issue and allotment of 1,000,000 ordinary shares each to Messrs Juat Lim Sim and Hung Seah Tang fully paid at A$0.10 per share as part payment of their performance bonus for the year ended 30 June 2009. Such shares ranked *pari passu* with the existing ordinary shares of the Company.

Pursuant to shareholders' meeting on 12 November 2009, 2,000,000 shares were allotted to Mr Giok Lak Sim, fully paid at A$0.10 per share as part payment of his performance bonus for the year ended 30 June 2009. Such shares ranked *pari passu* with the existing ordinary shares of the Company.

*(ii) Issue of shares under Zicom Employee Share and Option Plan ("ZESOP")*

On 4 March 2010, the Company issued and allotted 50,000 ordinary shares, fully paid at A$0.28 per share, under the ZESOP. Such shares ranked *pari passu* with the existing ordinary shares of the Company.

(In Singapore dollars)

**19. Contributed equity (cont'd)**

(b) Movements in ordinary share capital (cont'd)

*(iii) Issue of shares in lieu of cash performance bonus*

On 6 October 2010, the board approved the issue and allotment of a total 1,453,797 shares to Messers Juat Lim Sim, Hung Seah Tang and Hong Jun Zhang fully paid at A$0.13 per share as part payment of their performance bonus for the year ended 30 June 2010. Such shares ranked *pari passu* with the existing ordinary shares of the Company.

Pursuant to the shareholders' meeting on 12 November 2010, 1,574,265 and 329,846 shares were allotted to Mr Giok Lak Sim and Mr Kok Hwee Sim respectively, fully paid at A$0.13 per share as part payment of their performance bonus for the year ended 30 June 2010. Such shares ranked *pari passu* with the existing ordinary shares of the Company.

*(iv) Share buy-back*

On 30 May 2010, the board approved an on-market share buy-back within the 10/12 limit as part of the Group's capital management program. The share buy-back scheme which commenced on 1 September 2010 bought back 4.06 million shares up to 30 June 2011.

*(v) Issue of shares under ZESOP*

From February 2011 to June 2011, the Company issued and allotted 1,162,500 ordinary shares, fully paid at A$0.28 per share, under the ZESOP. Such shares ranked *pari passu* with the existing ordinary shares of the Company.

**20. Cash and cash equivalents**

| | **Consolidated** | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| Cash at bank and in hand | 19,871,350 | 22,949,162 |
| Short-term fixed deposits | 3,803,505 | 2,036,634 |
| | 23,674,855 | 24,985,796 |
| For the purpose of cash flow statements, cash and cash equivalents comprise the following as at 30 June: | | |
| Cash and short-term deposits | 23,674,855 | 24,985,796 |
| Bank overdrafts | (494,849) | (447,704) |
| | 23,180,006 | 24,538,092 |

Cash at bank balance amounting to S$193,293 (2010: S$16,460) as at 30 June 2011 earned interest at floating rate based on daily bank deposit rates ranging of 1.00% to 7.10% (2010: 3.28%) per annum. The remaining cash at bank balances are non interest-bearing.

Short-term deposits are made for varying periods of one day to one month depending on the immediate cash requirements of the Group, and earn interests at the respective short-term rates.

(In Singapore dollars)

**21. Financial instruments**

(a) Financial risk management objectives and policies

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks. The Group enters into derivative transactions, principally foreign currency forward contracts and foreign exchange options, purpose is to manage currency risk arising from the Group's operations and sources of finance. The Group does not apply hedge accounting for such derivatives.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(b) Interest rate risk

Interest rate 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 interest rates.

The Group's exposure to interest rate risk arises primarily from debt obligations which have floating interest rates. The Group's policy with respect to controlling this risk is linked to a regular review of the total debt position and assessment of the impact of adverse changes in interest rates applicable to new and existing debt facilities. Consideration is given to potential renewal of existing positions, alternative financing, alternative hedging positions and mix of fixed and variable interest rates.

At the balance sheet date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

| | **Consolidated** | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| *Financial assets* | | |
| Cash and bank balances | 193,293 | 16,460 |
| *Financial liabilities* | | |
| Bank overdraft | 494,849 | 447,704 |
| Invoice finance facility | 2,754,320 | 2,240,080 |
| Factory loans | 3,005,762 | 3,720,585 |
| Machinery loans | 594,621 | 879,040 |
| Term loan | 7,328,078 | – |
| | 14,177,630 | 7,287,409 |

*Sensitivity analysis of interest rate risk*

As at 30 June 2011, if interest rates had increased/decreased by 25 basis point with all other variables held constant, post-tax profits for the consolidated entity for the financial year would be (S$43,055)/S$42,897 (2010: (S$24,411)/S$24,359) lower/higher, as a result of the higher/lower interest rates. Accordingly, the Group's equity as at year end will be (S$43,055)/S$42,897 (2010: (S$24,411)/S$24,359) lower/higher. Term loan amounting to S$139,864 (2010: S$43,090) has fixed interest rates until expiry, at which point interest rates resets.

(In Singapore dollars)

**21. Financial instruments (cont'd)**

(c) Foreign currency risk

Foreign currency risk occurs as a result of the Group's transactions that are not denominated in their respective functional currencies. These transactions arise from the Group's ordinary course of business. The Group transacts business in various currencies and as a result, is largely exposed to movements in exchange rates of United States Dollars, Norwegian Kroner, Euros and Australian Dollars.

The Group manages its foreign exchange exposure by a policy of matching, as far as possible, receipts and payments in each individual currency. The Group also uses foreign currency forward contracts and foreign exchange options to hedge a portion of its future foreign exchange exposure. The Group uses these currency hedging contracts purely as a hedging tool and does not take positions in currencies with a view to make speculative gains from currency movements.

The following sensitivity analysis is based on the foreign exchange risk exposure in existence at the balance sheet date. As at 30 June 2011, if exchange rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| | **Post tax profit Higher/(lower)** | |
|---|---|---|
| | **2011** | **2010** |
| ***Consolidated*** | S$ | S$ |
| USD | | |
| - strengthened 6% (2010: 3%) | 558,974 | 72,811 |
| - weakened 6% (2010: 3%) | (558,974) | (72,811) |
| NOK | | |
| - strengthened 4% (2010: 7%) | 5,408 | (27,350) |
| - weakened 4% (2010: 7%) | (5,408) | 27,350 |
| EUROS | | |
| - strengthened 4% (2010:1%) | 5,769 | (2,959) |
| - weakened 4% (2010:1%) | (5,769) | 2,959 |
| AUD | | |
| - strengthened 3% (2010: 2%) | 19,308 | 23,241 |
| - weakened 3% (2010: 2%) | (19,308) | (23,241) |
| GBP | | |
| - strengthened 2% (2010: 1%) | (1,625) | (1,036) |
| - weakened 2% (2010: 1%) | 1,625 | 1,036 |

(d) 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 exposure to credit risk arises primarily from trade and other receivables.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. Credit risk is monitored through careful selection of customers and their balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

At the balance sheet date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised on the balance sheet.

(In Singapore dollars)

**21. Financial instruments (cont'd)**

(d) Credit risk (cont'd)

*Credit risk concentration profile*

The Group determines concentration of credit risk by monitoring the country profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the balance sheet date is as follows:

| | Consolidated 2011 | | Consolidated 2010 | |
|---|---|---|---|---|
| | S$ | % of total | S$ | % of total |
| Australia | 4,862,685 | 19.6% | 4,442,832 | 20.1% |
| Bangladesh | 3,465,073 | 14.0% | 13,226 | 0.1% |
| Hong Kong | 134,108 | 0.5% | 139,199 | 0.6% |
| India | 201,396 | 0.8% | 387,650 | 1.8% |
| Indonesia | 334,786 | 1.3% | 987,393 | 4.5% |
| Malaysia | 2,270,270 | 9.2% | 2,661,831 | 12.0% |
| People's Republic of China | 444,710 | 1.8% | 483,506 | 2.2% |
| Singapore | 9,057,715 | 36.5% | 9,553,001 | 43.2% |
| Thailand | 873,798 | 3.5% | 703,199 | 3.2% |
| United States of America | 2,662,839 | 10.7% | 2,304,913 | 10.4% |
| Vietnam | 254,923 | 1.1% | 243,754 | 1.1% |
| Others | 239,988 | 1.0% | 177,933 | 0.8% |
| | 24,802,291 | 100% | 22,098,437 | 100% |

At the balance sheet date, approximately 61.8% (2010: 45.1%) of the Group's trade receivables were due from 18 (2010: 29) major customers.

*Financial assets that are neither past due nor impaired*

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and short term deposits are placed with reputable banks.

Included in trade receivables as at 30 June 2011, S$1,869,373 (2010: S$240,000) are arranged to be settled via letters of credit issued by reputable banks in countries where the customers are based.

*Financial assets that are past due but not impaired*

As at 30 June 2011, the ageing analysis of trade receivables is as follows:

| | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | S$ | S$ |
| Less than 30 days | 6,009,869 | 3,937,983 |
| 30 to 60 days | 2,108,469 | 2,637,560 |
| 61 to 90 days | 504,436 | 797,506 |
| 91 to 120 days | 1,190,631 | 593,269 |
| More than 120 days | 3,312,853 | 4,222,772 |
| | 13,126,258 | 12,189,090 |

*Financial assets that are impaired*

Please refer to note 14 for details.

(In Singapore dollars)

**21. Financial instruments (cont'd)**

(e) Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and committed available credit lines.

The table below summarises the maturity profile of the Group's financial assets and liabilities at the balance sheet date based on contractual undiscounted payments. The expected timing of actual cash flows from these financial instruments may differ.

| Consolidated | 6 months or less S$ | 7 to 12 months S$ | After 1 year but not more than 5 years S$ | 5 to 10 years S$ | Total S$ |
|---|---|---|---|---|---|
| **2011** | | | | | |
| ***Financial assets:*** | | | | | |
| Trade receivables | 24,967,243 | 164,952 | 27,492 | – | 25,159,687 |
| Other receivables | 193,954 | 109,773 | 7,000 | – | 310,727 |
| Investment securities | – | – | 520 | – | 520 |
| Cash and bank balances | 23,674,856 | – | – | – | 23,674,856 |
| Total undiscounted financial assets | 48,836,053 | 274,725 | 35,012 | – | 49,145,790 |
| ***Financial liabilities:*** | | | | | |
| Trade payables | 10,287,183 | – | – | – | 10,287,183 |
| Other payables | 9,382,497 | 1,008,108 | 175,232 | 148,775 | 10,714,612 |
| Loans and borrowings | 9,177,053 | 2,560,287 | 10,975,155 | 323,688 | 23,036,183 |
| Total undiscounted financial liabilities | 28,846,733 | 3,568,395 | 11,150,387 | 472,463 | 44,037,978 |
| Total net undiscounted financial assets/ (liabilities) | 19,989,320 | (3,293,670) | (11,115,375) | (472,463) | 5,107,812 |

| Consolidated | 6 months or less S$ | 7 to 12 months S$ | After 1 year but not more than 5 years S$ | 5 to 10 years S$ | Total S$ |
|---|---|---|---|---|---|
| **2010** | | | | | |
| ***Financial assets:*** | | | | | |
| Trade receivables | 26,620,689 | 432,572 | – | – | 27,053,261 |
| Other receivables | 789,115 | 39,517 | 7,000 | – | 835,632 |
| Investment securities | – | – | 520 | – | 520 |
| Cash and bank balances | 24,985,796 | – | – | – | 24,985,796 |
| Total undiscounted financial assets | 52,395,600 | 472,089 | 7,520 | – | 52,875,209 |
| ***Financial liabilities:*** | | | | | |
| Trade payables | 11,252,331 | – | – | – | 11,252,331 |
| Other payables | 6,951,154 | 619,485 | – | – | 7,570,639 |
| Loans and borrowings | 9,629,191 | 1,353,686 | 7,344,625 | 697,189 | 19,024,691 |
| Total undiscounted financial liabilities | 27,832,676 | 1,973,171 | 7,344,625 | 697,189 | 37,847,661 |
| Total net undiscounted financial assets/ (liabilities) | 24,562,924 | (1,501,082) | (7,337,105) | (697,189) | 15,027,548 |

(In Singapore dollars)

**21. Financial instruments (cont'd)**

(f) Derivative financial instruments

(i) *Fair value of financial instruments that are carried at fair value*

| | Quoted prices in active markets for identical instruments (Level 1) S$ | Significant other observable inputs (Level 2) S$ | Significant unobservable inputs (Level 3) S$ | Total S$ |
|---|---|---|---|---|
| **Consolidated** | | | | |
| **2011** | | | | |
| **Financial assets:** | | | | |
| Available-for-sale | 520 | – | – | 520 |
| At 30 June 2011 | 520 | – | – | 520 |
| **Financial liabilities:** | | | | |
| Derivatives | – | 110,148 | – | 110,148 |
| At 30 June 2011 | – | 110,148 | – | 110,148 |
| **2010** | | | | |
| **Financial assets:** | | | | |
| Available-for-sale | 520 | – | – | 520 |
| At 30 June 2010 | 520 | – | – | 520 |
| **Financial liabilities:** | | | | |
| Derivatives | – | 497,331 | – | 497,331 |
| At 30 June 2010 | – | 497,331 | – | 497,331 |

*Fair value hierarchy*

The Group classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy have the following levels:

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

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation includes foreign exchange contracts not traded on a recognised exchange.

There were no transfers between level 1 and level 2 during the year.

(In Singapore dollars)

**21. Financial instruments (cont'd)**

(f) Derivative financial instruments (cont'd)

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

Management has determined that the carrying amounts of cash and short-term deposits, current trade and other receivables, current trade and other payables, current interest-bearing liabilities reasonably approximate their fair values because they are mostly short-term in nature and repriced frequently.

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

The fair values of non-current finance lease liability and bank loans, which are not carried at fair value in the balance sheet, is presented in the following table. The fair value is estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending and borrowing arrangements.

| | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | S$ | S$ | S$ | S$ |
| ***Financial liabilities:*** | | | | |
| Obligations under finance leases | 2,534,757 | 861,216 | 2,343,278 | 810,137 |
| Bank loans (non-current) | 8,102,771 | 6,499,845 | 7,277,973 | 5,598,973 |

**22. Capital management**

The Group's primary objective when managing capital is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management is constantly adjusting the capital structure to take advantage of favourable costs of capital or higher returns on assets. As the market is constantly changing and after taking into account the Group's expansion requirement, management may adjust the dividend payments to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

Management monitors capital through the gearing ratio (net debt / total capital). The Group defines net debts as interest-bearing liabilities less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company and reserves. The Group's policy is to keep its gearing ratio at less than 50%. The gearing ratios as at 30 June 2011 and 2010 were as follows:

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| Interest-bearing liabilities | 21,848,667 | 17,970,882 |
| Less: cash and cash equivalents | 23,180,006 | 24,538,092 |
| Net cash | 1,331,339 | 6,567,210 |
| Equity attributable to equity holders of the Company | 78,364,299 | 66,469,766 |
| Gearing ratio | 0% | 0% |

## 23. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

In addition to the related party information disclosed elsewhere in the financial statements, the following are transactions with related parties at mutually agreed terms and amounts:

(a) Sale and purchase of goods and services

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| Minority shareholder of a subsidiary company | | |
| - Sales | 324,249 | 271,318 |
| - Purchases | 1,740,316 | 488,351 |
| Associates | | |
| - Sales | 81,948 | – |
| - Interest income | 33,521 | – |

(b) Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

During the financial year, loans amounting to S$1,500,000 were given to Biobot Surgical Pte Ltd at an interest rate of 5% per annum. The loans which were given in advance against the investment tranche dates have been included in the cost of investment in an associate on the balance sheet rather than as a receivable as these loans will be capitalised as each tranche date is due.

Amount owing from the joint venture as at 30 June 2010 were unsecured, non-trade in nature, interest-free and denominated in United States Dollars. This amount has been repaid in the current financial year.

Outstanding balances at as year-end with other related parties are unsecured, interest-free and have no fixed terms of repayment. For information regarding outstanding balance on related party receivables and payables at year-end, please refer to notes 14 and 16.

(c) Directors and key management personnel

Disclosures are set out in note 24.

(In Singapore dollars)

## 24. Key management personnel

(a) Details of key management personnel

(i) Directors

| | |
|---|---|
| G L Sim | (Chairman and Managing Director) |
| K H Sim | (Executive Director) |
| K Y Sim | (Alternate Director to K H Sim, appointed on 5 July 2010) |
| Y P Lim | (Independent) |
| F Leong | (Independent) |
| I R Millard | (Independent) |
| S P Sze | (Independent) |

(ii) Executives

| | |
|---|---|
| J L Sim | (Joint Managing Director of Zicom Pte Ltd) |
| H S Tang | (Joint Managing Director of Zicom Pte Ltd) |
| G H Teoh | (Managing Director of Foundation Associates Engineering Pte Ltd) |
| J Koon Sim | (President of Sys-Mac Automation Engineering Pte Ltd) |

(b) Compensation of key management personnel

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| Short-term employee benefits | 4,142,408 | 2,933,631 |
| Post-employment benefits | 62,889 | 60,885 |
| Share-based payment | 98,587 | 535,130 |
| Total compensation | 4,303,884 | 3,529,646 |

(c) Shareholdings of key management personnel

**30 June 2011**

| *Directors* | **Balance as at 1 July 2010** | **Granted as remuneration** | **Options exercised** | **Net change other** | **Balance as at 30 June 2011** |
|---|---|---|---|---|---|
| G L Sim | 72,210,947 | 1,574,265 | – | – | 73,785,212 |
| K H Sim | 733,000 | 329,846 | – | – | 1,062,846 |
| K Y Sim | 800,717 | – | – | – | 800,717 |
| Y P Lim | 413,000 | – | 25,000 | – | 438,000 |
| F Leong | 233,750 | – | 25,000 | – | 258,750 |
| I R Millard | 517,250 | – | 25,000 | – | 542,250 |
| S P Sze | – | – | – | – | – |
| *Executives* | | | | | |
| J L Sim | 5,691,149 | 716,618 | – | – | 6,407,767 |
| H S Tang | 2,575,772 | 449,927 | – | (389,235) | 2,636,464 |
| G H Teoh | 5,578,469 | – | 100,000 | (5,628,469) | 50,000 |
| J Koon Sim | 22,031,771 | – | – | (1,939,834) | 20,091,937 |
| | 110,785,825 | 3,070,656 | 175,000 | (7,957,538) | 106,073,943 |

(In Singapore dollars)

## 24. Key management personnel (cont'd)

(c) Shareholdings of key management personnel (cont'd)

**30 June 2010**

| *Directors* | Balance as at 1 July 2009 | Granted as remuneration | Options exercised | Net change other | Balance as at 30 June 2010 |
|---|---|---|---|---|---|
| G L Sim | 69,233,476 | 2,000,000 | – | 977,471 | 72,210,947 |
| K H Sim | 683,000 | – | – | 50,000 | 733,000 |
| K Y Sim | 800,717 | – | – | – | 800,717 |
| Y P Lim | 413,000 | – | – | – | 413,000 |
| F Leong | 183,750 | – | – | 50,000 | 233,750 |
| I R Millard | 517,250 | – | – | – | 517,250 |
| S P Sze | – | – | – | – | – |
| *Executives* | | | | | |
| J L Sim | 4,691,149 | 1,000,000 | – | – | 5,691,149 |
| H S Tang | 2,575,772 | 1,000,000 | – | (1,000,000) | 2,575,772 |
| G H Teoh | 5,578,469 | – | – | – | 5,578,469 |
| J Koon Sim | 22,031,771 | – | – | – | 22,031,771 |
| | 106,708,354 | 4,000,000 | – | 77,471 | 110,785,825 |

(d) Option holdings of key management personnel

**30 June 2011**

| | Balance at 1 July 2010 | Granted | Options exercised | Forfeited | Balance at 30 June 2011 | Value of options granted |
|---|---|---|---|---|---|---|
| *Directors* | | | | | | |
| K H Sim | 100,000 | 200,000 | – | – | 300,000 | 29,394 |
| K Y Sim | 100,000 | 200,000 | – | – | 300,000 | 29,394 |
| Y P Lim | 50,000 | 50,000 | (25,000) | – | 75,000 | 7,349 |
| F Leong | 50,000 | 50,000 | (25,000) | – | 75,000 | 7,349 |
| I R Millard | 50,000 | 50,000 | (25,000) | – | 75,000 | 7,349 |
| S P Sze | – | 30,000 | – | – | 30,000 | 4,409 |
| *Executives* | | | | | | |
| J L Sim | 200,000 | 200,000 | – | – | 400,000 | 26,123 |
| H S Tang | 100,000 | 200,000 | – | – | 300,000 | 26,123 |
| G H Teoh | 100,000 | 200,000 | (100,000) | – | 200,000 | 26,123 |
| J Koon Sim | – | – | – | – | – | – |
| | 750,000 | 1,180,000 | (175,000) | – | 1,755,000 | 163,613 |

(In Singapore dollars)

24. **Key management personnel (cont'd)**

(d) Option holdings of key management personnel (cont'd)

**30 June 2010**

| | Balance at 1 July 2009 | Granted | Options exercised | Forfeited | Balance at 30 June 2010 | Value of options granted |
|---|---|---|---|---|---|---|
| *Directors* | | | | | | |
| K H Sim | 100,000 | – | – | – | 100,000 | – |
| K Y Sim | 100,000 | – | – | – | 100,000 | – |
| Y P Lim | 50,000 | – | – | – | 50,000 | – |
| F Leong | 50,000 | – | – | – | 50,000 | – |
| I R Millard | 50,000 | – | – | – | 50,000 | – |
| S P Sze | – | – | – | – | – | – |
| A G Palmer | 25,000 | – | – | (25,000) | – | – |
| B H Cheak | 50,000 | – | – | (50,000) | – | – |
| *Executives* | | | | | | |
| J L Sim | 200,000 | – | – | – | 200,000 | – |
| H S Tang | 100,000 | – | – | – | 100,000 | – |
| G H Teoh | 100,000 | – | – | – | 100,000 | – |
| J V Vaughan | 100,000 | – | – | (100,000) | – | – |
| | 925,000 | – | – | (175,000) | 750,000 | – |

The above options were granted under the Zicom Employee Share and Option Plan which was approved by shareholders on 23 November 2006. Options granted during the current financial year are not vested and accordingly, not exercisable. Options which were granted in prior years had been vested and are exercisable. Please refer to note 25 for more information.

(e) There were no loans made to key management personnel by the Group during the year.

25. **Share-based payment plans**

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year for equity-settled share-based payment transactions amounted to S$446,200 (2010: S$89,585). There have been no cancellations or modifications to the plan during the year 2011 and 2010.

(b) Description of the share-based payment plan

*Zicom Employee Share and Option Plan ("ZESOP")*

Share options are granted to employees as an incentive to retain experience and attract talent. Under the ZESOP, the exercise price of the options approximates the market price of the shares on the grant dates. Employees must remain in service for a period of 2 to 3 years.

Should an employee leave the company or resign from his office, any options not exercised prior to that date will be lost except for exceptional circumstances such as death or physical or mental incapacity.

The contractual life of each option granted is 5 years. There are no cash-settlement alternatives.

(In Singapore dollars)

**25. Share-based payment plans (cont'd)**

(c) Outstanding number of options granted under ZESOP

| | 2011 | 2010 |
|---|---|---|
| | No. of options | |
| Outstanding at beginning of the year | 3,265,000 | 3,290,000 |
| Granted during the year | 5,000,000 | 400,000 |
| Forfeited during the year | (215,000) | (375,000) |
| Exercised during the year | (1,162,500) | (50,000) |
| Outstanding at end of year | 6,887,500 | 3,265,000 |

The outstanding balance as at 30 June 2011 is represented by:

- 515,000 (2010: 1,257,500) options over ordinary shares with an exercise price of A$0.28 each, exercisable on or after 1 June 2010, until 31 May 2013
- 847,500 (2010: 1,257,500) options over ordinary shares with an exercise price of A$0.28 each, exercisable on or after 1 June 2011, until 31 May 2013
- 100,000 (2010: 175,000) options over ordinary shares with an exercise price of A$0.28 each, exercisable on or after 28 August 2010, until 27 August 2013
- 175,000 (2010: 175,000) options over ordinary shares with an exercise price of A$0.28 each, exercisable on or after 28 August 2011, until 27 August 2013
- 187,500 (2010: 200,000) options over ordinary shares with an exercise price of A$0.28 each, exercisable on or after 1 May 2012, until 30 April 2015
- 187,500 (2010: 200,000) options over ordinary shares with an exercise price of A$0.28 each, exercisable on or after 1 May 2013, until 30 April 2015
- 2,147,500 (2010: nil) options over ordinary shares with an exercise price of A$0.18 each, exercisable on or after 1 October 2011, until 30 September 2015
- 2,147,500 (2010: nil) options over ordinary shares with an exercise price of A$0.18 each, exercisable on or after 1 October 2012, until 30 September 2015
- 290,000 (2010: nil) options over ordinary shares with an exercise price of A$0.18 each, exercisable on or after 15 November 2011, until 14 November 2015
- 290,000 (2010: nil) options over ordinary shares with an exercise price of A$0.18 each, exercisable on or after 15 November 2012, until 14 November 2015

(d) Weighted average fair value

The weighted average fair value of options granted during the year was A$0.10 (2010: A$0.09).

(e) The weighted average share price during the period of exercise from February 2011 to June 2011 is A$0.49 (2010: A$nil).

(In Singapore dollars)

**25. Share-based payment plans (cont'd)**

(f) Option pricing model

The fair value of the equity-settled share options granted under the ZESOP is estimated as at the date of grant using a Trinomial model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | 2011 | 2010 |
|---|---|---|
| Exercise price (A$): | 0.18 | 0.28 |
| Stock price at grant date (A$): | 0.21 | 0.19 |
| Maximum option life in years: | 5 | 5 |
| Volatility: | 78.18% | 82.83% |
| Risk free interest rate | 4.63% | 4.25% |

The effects of early exercise have been incorporated into the calculations by defining the conditions under which employees are expected to exercise their options after vesting in terms of the stock price reaching a specified multiple of the exercise price, which is not necessary indicative of exercise patterns that may occur in the future.

**26. Business combinations**

(a) Acquisition of Orion Systems Integration Pte Ltd

On 3 December 2010, Zicom Holdings Pte Ltd ("ZHPL") acquired 54% equity interest in Orion Systems Integration Pte Ltd. The provisional fair values of the identifiable assets and liabilities at the date of acquisition were:

| | Fair value recognised on acquisition S$ |
|---|---|
| Property, plant and equipment | 1,946 |
| Unpatented technology | 3,049,410 |
| Trade debtors | 141,324 |
| Other receivables | 463 |
| Cash and cash equivalents | 1,033,812 |
| | 4,226,955 |
| Deferred taxation | (516,699) |
| Trade creditors | (191,264) |
| Other payables | (43,613) |
| | (751,576) |
| Total identifiable net assets at fair value | 3,475,379 |
| Non-controlling interest | (1,589,639) |
| Goodwill arising on acquisition | 664,260 |
| Purchase consideration | 2,550,000 |
| Effect of the acquisition on cash flows | |
| Net cash acquired with the subsidiary | 1,033,812 |
| Cash paid | (2,550,000) |
| Net cash outflow on acquisition | (1,516,188) |

The consolidated statement of comprehensive income include sales revenue and net loss for the year ended 30 June 2011 of S$157,900 and S$209,338 respectively, as a result of the acquisition of Orion Systems Integration Pte Ltd.

(In Singapore dollars)

**26. Business combinations (cont'd)**

(b) Acquisition of PT Putra Dharma Harmoteknik

On 1 January 2011, Zicom Equipment Pte Ltd ("ZEP"), a wholly-owned subsidiary company of ZHPL, acquired 60% equity interest in PT Putra Dharma Harmoteknik ("PDH"). PDH is principally involved in activities relating to the energy sector and holds a MIGAS licence from the Department of Energy and Mineral Resources, Indonesia as a licensed Engineering, Procurement and Construction ("EPC") supplier/contractor qualified to carry out turnkey projects in the oil and gas sector. The acquisition is to position ZEP to participate directly as an EPC contractor through PDH in the oil and gas sector in Indonesia.

The provisional fair values of the identifiable assets and liabilities at the date of acquisition were:

| | **Fair value recognised on acquisition** S$ |
|---|---|
| Property, plant and equipment | 20,755 |
| Other assets | 963 |
| Trade debtors | 393,518 |
| Cash and cash equivalents | 649,087 |
| | 1,064,323 |
| Trade creditors | (737,050) |
| Total identifiable net assets at fair value | 327,273 |
| Non-controlling interest | (130,908) |
| Goodwill arising on acquisition | 189,610 |
| Purchase consideration | 385,975 |
| Effect of the acquisition on cash flows | |
| Net cash acquired with the subsidiary | 649,087 |
| Cash paid | (385,975) |
| Net cash inflow on acquisition | 263,112 |

The consolidated statement of comprehensive income include sales revenue and net loss for the year ended 30 June 2011 of S$153,535 and S$103,809 respectively, as a result of the acquisition of PT Putra Dharma Harmoteknik.

(c) Acquisition of FA Geotech Equipment Sdn Bhd

On 1 November 2010, one of the wholly-owned subsidiaries of ZHPL, Foundation Associates Engineering Pte Ltd, acquired 100% equity interest in a dormant company, FA Geotech Equipment Sdn Bhd ("FAG") for a nominal cash consideration of S$1. At the date of acquisition, FAG had identifiable net liabilities at fair value of S$4,904. Accordingly, goodwill amounting to S$4,905 was written off to the statement of comprehensive income.

(In Singapore dollars)

**26. Business combinations (cont'd)**

(d) Acquisition of SS Subsea Pte Ltd and its subsequent disposal

On 1 September 2010, the Group's subsidiary company, Foundation Associates Engineering Pte Ltd, acquired 80% equity interest in SS Subsea Pte Ltd ("SSS"), for its know-how on subsea systems for a cash consideration of S$80,000 with the intention to fund its development. At the date of acquisition, the fair value of identifiable net assets acquired S$79,693 and the nominal goodwill of S$307 was written off to the statement of comprehensive income.

The effect of the acquisition on cash flow is as follows:

| | S$ |
|---|---|
| Cash paid | 80,000 |
| Net cash acquired with the subsidiary | (22,536) |
| Net cash outflow on acquisition | 57,464 |

On 30 June 2011, FAE sold its entire 80% interest in SSS back to its original owner who owns the remaining 20% for a cash consideration of S$40,000 as the know-how was found to be inadequate for the purpose of our investment. The value of assets and liabilities at the date of disposal and the cash flow effect of the disposal were:

| | S$ |
|---|---|
| Carrying value of net assets disposed | 6,797 |
| Gain on disposal of equity interest | 33,203 |
| Cash consideration | 40,000 |
| Consideration not received as at 30 June 2011 | (40,000) |
| Cash and cash equivalent disposed | (11,823) |
| Net outflow on disposal of subsidiary | (11,823) |

**27. Commitments**

(a) Commitments

As at year end, the Group has the following commitments :

(i) The Group has issued letters of credit amounting to S$3,195,515 (2010: S$nil).

(i) The Group has issued letters of guarantee amounting to S$5,478,829 (2010: S$5,473,125).

(ii) The Group has entered into foreign exchange derivatives amounting to S$5,530,993 (2010: S$11,257,756).

(iii) The Group has committed to invest additional $500,000 cash in Biobot Surgical Pte Ltd by 31 December 2012.

(iv) The Group is committed to subscribe for 104,000 preference shares at S$4.80 per share should Curiox Biosystems Pte Ltd exercise the last put option on Zicom Holdings Pte Ltd by 1 April 2012.

(In Singapore dollars)

**27. Commitments (cont'd)**

(b) Operating lease commitments

(i) The Group has entered into commercial leases for the use of leasehold properties and office equipment as lessee. These leases have an average of 3 to 30 years with a further option for certain leasehold properties to extend for a further 30 years. There are no restrictions placed upon the Group by entering into these leases.

Future minimum lease payments for the leases are as follows :

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | S$ | S$ |
| Within 1 year | 1,980,939 | 1,536,786 |
| Within 2 - 5 years | 5,626,208 | 4,046,413 |
| More than 5 years | 1,423,481 | 1,417,275 |
| | 9,030,628 | 7,000,474 |

(ii) The amount of operating lease payments recognised as an expense in the year ended 30 June 2011 is S$1,810,747 (2010: S$1,738,268).

(c) Finance lease commitments

The Group conducts a portion of its business using leased assets. The average discount rate implicit in the leases is 3.4% (2010: 3.0%) per annum.

Future minimum lease payment under finance leases together with present value of the net minimum lease payments are as follows :

| **Consolidated** | **Minimum payments 2011** | **Present value of payments 2011** | **Minimum payments 2010** | **Present value of payments 2010** |
|---|---|---|---|---|
| | S$ | S$ | S$ | S$ |
| Due within one year | 1,585,387 | 1,476,236 | 589,118 | 543,059 |
| After one year but not more than five years | 2,731,439 | 2,534,757 | 929,589 | 861,216 |
| Total minimum lease payments | 4,316,826 | 4,010,993 | 1,518,707 | 1,404,275 |
| Less: amounts representing finance charges | (305,833) | – | (114,432) | – |
| | 4,010,993 | 4,010,993 | 1,404,275 | 1,404,275 |

(d) Capital commitments

As at 30 June 2011, the Group has no (2010: S$55,154) capital commitment.

(In Singapore dollars)

## 28. Auditors' remuneration

During the year, the following fees were paid/ payable for services provided by auditors:

| | Consolidated 2011 | Consolidated 2010 |
|---|---|---|
| | S$ | S$ |
| *Amounts received or due and receivable by Ernst & Young(Australia)* | | |
| - Audit or review of financial statements | 181,397 | 169,512 |
| *Amounts received or due and receivable by Ernst & Young (Singapore)* | | |
| - Audit or review of financial statements | 250,000 | 179,000 |
| - Taxation services | 24,500 | 27,100 |
| *Amounts received or due and receivable by other audit firm* | | |
| - Audit or review of financial statements | 26,351 | 21,904 |
| - Taxation services | 11,579 | 17,260 |
| | 493,827 | 414,776 |

## 29. Parent entity disclosures

(a) The individual financial statements of the parent entity shows the following aggregate amounts:

| | 2011 | 2010 |
|---|---|---|
| | S$ | S$ |
| **Balance sheet of the parent entity at year end** | | |
| Non-current assets | 49,292,895 | 48,134,935 |
| Current assets | 1,962,736 | 2,546,030 |
| Total assets | 51,255,631 | 50,680,965 |
| Current liabilities | 588,630 | 475,483 |
| Total liabilities | 588,630 | 475,483 |
| Net assets | 50,667,001 | 50,205,482 |
| **Total equity of the parent entity comprising of :** | | |
| Share capital | 70,871,790 | 70,995,337 |
| Share capital - exercise of share options | 119,358 | 3,679 |
| Capital reserve | 688,553 | 688,553 |
| Foreign currency translation reserve | (269) | (128,353) |
| Share based payments reserve | 537,314 | 216,379 |
| Accumulated losses | (21,549,745) | (21,570,113) |
| | 50,667,001 | 50,205,482 |
| **Results of parent entity** | | |
| Profit for the year | 2,513,367 | 1,572,184 |
| Other comprehensive income | – | – |
| Total comprehensive income | 2,513,367 | 1,572,184 |

**29. Parent entity disclosures (cont'd)**

(b) Guarantees

(i) The parent entity has issued letters of guarantee amounting to S$9,321,175 (2010: S$8,674,820) to secure trade facilities and factory loans to controlled entities.

(ii) The parent entity has entered into a Deed of Cross Guarantee and the subsidiary subject to the deed is disclosed in note 10.

(c) Contingent liabilities

The parent entity has no contingent liabilities and commitments as at 30 June 2011 and 30 June 2010.

**30. Subsequent events**

(a) Exercise of 2nd call option in Curiox

On 15 July 2011, the Group's subsidiary company, Zicom Holdings Pte Ltd, exercised the second call option granted by Curiox Biosystems Pte Ltd to purchase 104,000 preference shares for a cash consideration of S$499,200, increasing its equity interest held to 37.36%.

(b) Renewal of share buy-back

On 27 August 2011, the board decided to renew the existing on-market share buy-back within 10/12 limit which would have expired on 31 August 2011 for another year.

# Directors' Declaration

In accordance with a resolution of the directors of Zicom Group Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.2.

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2011.

(e) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 10 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

G L Sim
Chairman/Managing Director
Brisbane
29 September 2011

# Independent Auditor's Report

TO THE MEMBERS OF ZICOM GROUP LIMITED



**Report on the financial report**

We have audited the accompanying financial report of Zicom Group Limited, which comprises the consolidated balance sheet as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

**Directors' responsibility for the financial report**

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2.2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

**Auditor's responsibility**

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

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

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

**Independence**

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

**Opinion**

In our opinion:

a. the financial report of Zicom Group Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   ii. complying with Australian Accouting Standards and the Corporations Regulations 2001; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.2.

# Independent Auditor's Report

TO THE MEMBERS OF ZICOM GROUP LIMITED

**Report on the remuneration report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Opinion**

In our opinion, the Remuneration Report of Company for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Ric Roach
Partner
29 September 2011

# Information on Shareholdings

AS AT 30 SEPTEMBER 2011



**Distribution of Equity Securities**

a) Analysis of numbers of equity security holders by size of holding:-

| | | | Ordinary Shares | Number of Holders |
|---|---|---|---|---|
| 1 | – | 1,000 | 111,220 | 259 |
| 1,001 | – | 5,000 | 2,112,788 | 711 |
| 5,001 | – | 10,000 | 5,534,885 | 633 |
| 10,001 | – | 100,000 | 39,539,803 | 1,151 |
| 100,001 | | and over | 164,860,391 | 165 |
| | | | 212,159,087 | 2,919 |

b) There were 433 holders of less than a marketable parcel of ordinary shares.

**Twenty Largest Equity Security Holders**

The names of the twenty largest equity security holders are listed below:

| Name | Number of Ordinary Shares Held | Percentage of Issued Shares |
|---|---|---|
| SNS HOLDINGS PTE LTD | 64,247,330 | 30.28% |
| SIM JUAT KOON | 17,300,920 | 8.15% |
| GIOK LAK SIM | 10,037,882 | 4.73% |
| VENTRADE (ASIA) PTE LTD | 8,478,344 | 4.00% |
| SIM JUAT LIM | 6,207,767 | 2.93% |
| GOH EE GEK | 2,791,017 | 1.32% |
| TANG HUNG SEAH | 2,460,199 | 1.16% |
| NG SIONG TECK | 2,410,665 | 1.14% |
| CITICORP NOMINEES PTY LIMITED | 2,349,091 | 1.11% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 2,107,730 | 0.99% |
| MANDEL PTY LTD | 2,000,000 | 0.94% |
| FIRST CHARNOCK SUPERANNUATION PTY LTD | 1,890,000 | 0.89% |
| SIM JUAT KHIANG | 1,650,000 | 0.78% |
| MR CONRAN JAMES SMITH | 1,484,834 | 0.70% |
| KOK HWEE SIM | 1,012,846 | 0.48% |
| SHAYANA PTY LTD | 1,000,000 | 0.47% |
| MR JOHN BOON HENG CHEAK | 870,000 | 0.41% |
| KOK YEW SIM | 800,717 | 0.38% |
| PEBADORE PTY LTD | 800,000 | 0.38% |
| DEBUSCEY PTY LTD | 780,615 | 0.37% |

**Substantial Shareholders**

Substantial shareholders in the company (holding not less than 5% of the issued capital), as disclosed in substantial shareholder notices given to the company, are set out below:

| Name | Number of Ordinary Shares Held | Percentage of Issued Shares |
|---|---|---|
| Mr G L Sim & his associates | 74,285,212 | 35.01% |
| Sim Juat Koon & his associates | 20,091,937 | 9.47% |

**Voting Rights**

On a show of hands, every member present in person or by proxy shall have one vote and, upon a poll, each share shall have one vote.

# Corporate Directory



**BOARD OF DIRECTORS**

Giok Lak Sim (Chairman and Managing Director)
Kok Hwee Sim (Executive Director)
Yian Poh Lim
Frank Leong Yee Yew
Ian Robert Millard
Shaw Pao Sze
Kok Yew Sim (Alternate Director to Kok Hwee Sim)

**JOINT COMPANY SECRETARIES**

Jenny Lim Bee Chun
Surendra Kumar

**REGISTERED OFFICE**

38 Goodman Place
Murarrie QLD 4172
Telephone : +61 7 3908 6088
Facsimile : +61 7 3390 6898
Website : www.zicomgroup.com

**SHARE REGISTRY**

Link Market Services Limited
Level 15
324 Queen Street
Brisbane, Queensland 4000
Facsimile : +61 2 9287 0309

**AUDITORS**

Ernst & Young
Level 5, Waterfront Place
1 Eagle Street
Brisbane QLD 4000

**SOLICITORS**

ThomsonsLawyers
Level 16, Waterfront Place
1 Eagle Street
Brisbane QLD 4000

**BANKERS**

**Australia**
Westpac Banking Corporation

**Singapore**
United Overseas Bank Limited
Malayan Banking Berhad
Oversea-Chinese Banking Corporation Limited
DBS Bank Ltd
Westpac Banking Corporation

**Thailand**
United Overseas Bank (Thai) Public Company Limited
Siam Commercial Bank

**China**
Industrial and Commercial Bank of China
China Merchants Bank

# Notice of General Meeting

The General Meeting of Zicom Group Limited will be held at the

Oak Room, Level 4, Brisbane Club
Entrance, Brisbane Club Tower
Post Office Square, Queen Street Level
Brisbane, Queensland, Australia

Time: 9.00am (Brisbane time)
Date: Friday, 11 November 2011

A formal Notice of Meeting is enclosed.