



## MTQ Corporation Limited

ANNUAL REPORT 2003/2004

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## **Vision**

To be the leader in the field that we operate.



## **Mission Statement**

Provide our customers service quality, our employees job satisfaction and our shareholders return on their investments of a level which meets and surpasses their expectations.



# **MTQ**

MTQ Corporation Limited

(Incorporated in Singapore)



## Chairman's Statement

**For the financial year ended 31 March 2004, the Group registered a net profit after tax of S\$1.7 million, a 68.3% decline from that of the previous financial year.**

The decline was mainly attributable to:

- (a) the non-recurrence of a S\$3.5 million gain recognised in the previous financial year from the divestment of the Marine Repair Services division;
- (b) significant losses sustained by the Subsea Robotics division; and
- (c) weaker performance of the Oilfield Engineering division.

Although the Group remained profitable, the results were far from satisfactory.

### **SUBSEA ROBOTICS DIVISION**

The problems experienced by our Subsea Robotics division in Aberdeen worsened in the year under review. While the setback is partly attributable to the usual greenfield set-up gestation issues, our original business plan was not sufficiently well conceived. Although the revenue rates in Aberdeen are higher than those in the Asian region, operating costs are significantly higher and utilisation rates are limited due to severe winter months.

Remedial action was taken to rectify this situation, including a drastic reduction in personnel and other related overhead costs, and the centralisation of all marketing and administrative functions in Singapore. All non-committed ROVs were also relocated to Asia and the Middle East.

One positive aspect of our experience in Aberdeen, however, is that it has allowed us to demonstrate the superb engineering capabilities of our ROV fleet in the challenging environment of the North Sea and this has helped to stamp our presence in this specialised field.

During the financial year, an insurance claim over a lost ROV was satisfactorily resolved, concluding a protracted process that spanned 14 months.

Going forward into the new financial year, we expect the performance of the Subsea Robotics division to improve substantially with an anticipated increase in fleet utilisation rates and significantly lower overheads.

Besides examining further cost reduction in its Singapore structure, we will also actively explore opportunities to extend our service range through strategic alliances with established players in complementary activities.

### **OILFIELD ENGINEERING DIVISION**

Our Oilfield Engineering division turned in a lacklustre performance for the year amidst weaker market conditions in the oilfield equipment repair sector. Contrary to the general perception of a buoyant oil and gas industry, different

**“...we will also actively explore opportunities to extend our service range through strategic alliances with established players in complementary activities.”**

MTG



segments of the industry are subject to different time lags and business cycles. Notwithstanding this, we have protected our market share and will continue to maintain this leadership position by focusing on improvements in efficiency during this cyclical slowdown. Initiatives include the upgrading of equipment and manpower skills as well as examining and deriving better work methods to improve our margins. With these initiatives in place, we will be well-positioned for the market recovery. Rising oil prices have recently led to increased investment in drilling equipment. Prospects for this division will improve when these newly installed equipment seek repair and maintenance services. The division is likely to maintain a comparable level of performance in the current financial year.

#### **ENGINE SYSTEMS DIVISION**

The Engine Systems division in Australia continued to perform well. The acquisition of the business of Adelaide Fuel Injection group was successfully completed in later part of the year under review. Besides being a leading independent service provider in the turbocharger sector, we are now also a major player in the fuel injection sector. We are taking steps to integrate the fuel injection business into our nationwide network. We expect the Engine Systems division to continue its positive contribution to the Group.

Our inaugural attempt to establish the turbocharger and fuel injection business in Asia kicked off during the year with the commencement of our facility in Surabaya, Indonesia. Despite the long delay and higher-than-expected initial set-up costs, prospects appear to be encouraging. To-date, we have secured the patronage of many quality-conscious clients. Furthermore, many of our established principals (both in turbocharger and fuel injection) have approached us to represent them in Indonesia. Over time, we intend to expand our operations to other major Indonesian cities.

#### **RCR TOMLINSON LTD**

The takeover bid launched in May 2003 for RCR shares was not successful although it enabled us to raise our stake in the company to 28.0%. With our increased ownership, RCR is now reclassified as an associated company and we have commenced to equity-account our share of its earnings and assets. With prospects for the resource sector in Australia remaining buoyant in the near term, we expect continued improvement in its earnings and correspondingly better contribution to the Group.

#### **PROSPECTS**

As a large portion of the Group's earnings is derived offshore, any significant foreign exchange fluctuation can be expected to have an impact on the Group's performance. Nevertheless, barring unforeseen circumstances, the Group will remain profitable in the new financial year.

## Chairman's Statement

### SHARE PLACEMENT

In April 2004, the Group successfully completed a share placement exercise which increased the Company's issued share capital by approximately 19.95%. The additional funds raised will be earmarked for the Group's business expansion and for increasing its working capital.

### SCRIP DIVIDEND SCHEME

The Group obtained in-principle approval from SGX-ST in November 2003 to implement the Scrip Dividend Scheme subject to the approval of shareholders at an Extraordinary General Meeting to be convened on the same day as the forthcoming Annual General Meeting. Under the Scheme, shareholders are provided with an opportunity to elect to receive dividends in the form of fully paid new ordinary shares in the Company. We believe that the Scheme will boost the Company's share liquidity through enlargement of its capital base, strengthen the Group's working capital and enable our shareholders to further participate in the Group's growth.

### DIVIDEND

The Group declared an interim dividend of 4% less tax which was paid during the year. In addition, the Board is proposing a final dividend of 6% less tax to be approved by the shareholders in the forthcoming Annual General Meeting.

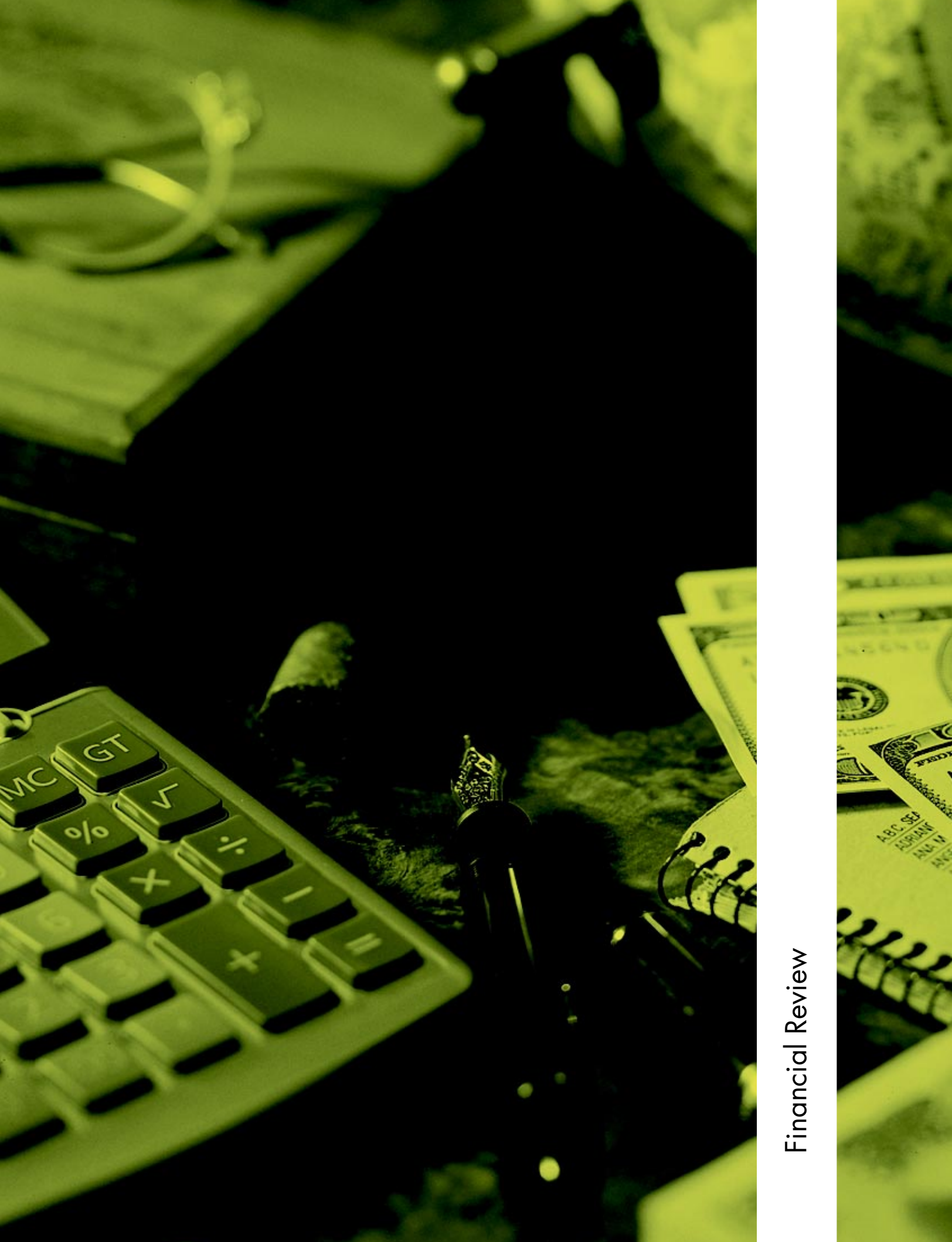
### ACKNOWLEDGMENT

I would like to take this opportunity to apologise to our shareholders for the underperformance of our Subsea Robotics business. We will learn from this experience, and will certainly spare no effort in rectifying the mistake in order to bring the Group's profitability to a more acceptable level.

To our shareholders and business partners, I extend my grateful thanks for your continued kind support during this difficult period. I also wish to thank our fellow Directors and employees for your hard work and dedication.

Kuah Kok Kim  
Chairman & CEO  
24 May 2004





Financial Review

## Group Five-Year Financial Profile

| (All figures in S\$'000)        | Restated       |               | 2002          | 2003          | 2004          |
|---------------------------------|----------------|---------------|---------------|---------------|---------------|
|                                 | 2000           | 2001          |               |               |               |
| <b>REVENUE</b>                  | <b>37,267</b>  | <b>49,670</b> | <b>42,412</b> | <b>48,030</b> | <b>52,738</b> |
| Oilfield and Marine             | 16,899         | 20,517        | 24,007        | 17,903        | 13,657        |
| Engine Systems                  | 5,579          | 14,994        | 16,073        | 23,218        | 32,710        |
| Subsea Robotics                 | —              | —             | 1,846         | 6,909         | 6,371         |
| Trading                         | 13,457         | 12,993        | 23            | —             | —             |
| Others                          | 1,332          | 1,166         | 463           | —             | —             |
| <b>EBITDA</b>                   | <b>357</b>     | <b>3,601</b>  | <b>4,342</b>  | <b>6,600</b>  | <b>6,762</b>  |
| Oilfield and Marine             | (81)           | 2,056         | 3,593         | 2,608         | 1,680         |
| Engine Systems                  | 585            | 1,413         | 1,459         | 2,328         | 3,189         |
| Subsea Robotics                 | —              | (221)         | (298)         | 943           | 1,234         |
| Trading                         | 172            | (353)         | 564           | 49            | —             |
| Multi-disciplined Engineering*  | —              | —             | —             | —             | 437           |
| Others                          | (319)          | 706           | (976)         | 672           | 222           |
| <b>PROFIT/(LOSS) BEFORE TAX</b> | <b>(8,198)</b> | <b>2,280</b>  | <b>1,693</b>  | <b>5,910</b>  | <b>2,203</b>  |
| Oilfield and Marine             | (2,477)        | 507           | 2,240         | 2,048         | 941           |
| Engine Systems                  | 507            | 1,169         | 1,174         | 1,912         | 2,455         |
| Subsea Robotics                 | —              | (272)         | (707)         | (474)         | (810)         |
| Trading                         | (204)          | (686)         | 564           | 49            | —             |
| Multi-disciplined Engineering*  | —              | —             | —             | —             | 1,366         |
| Others                          | (550)          | 494           | (1,000)       | 209           | (268)         |
| Finance costs                   | (163)          | (413)         | (357)         | (633)         | (1,149)       |
| Exceptional items               | (5,311)        | 1,481         | (221)         | 2,799         | (332)         |

Note: The category "Others" comprises the following:

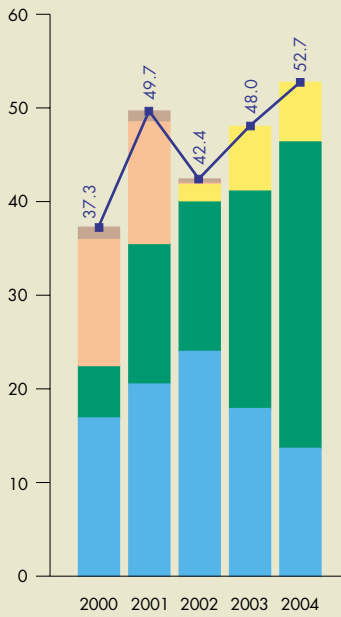
- the foundry segment (wound down in FY2002) which is insignificant to the Group's total performance;
- the investment holding segment; and
- non-allocated income and expenses.

\* Associated company.

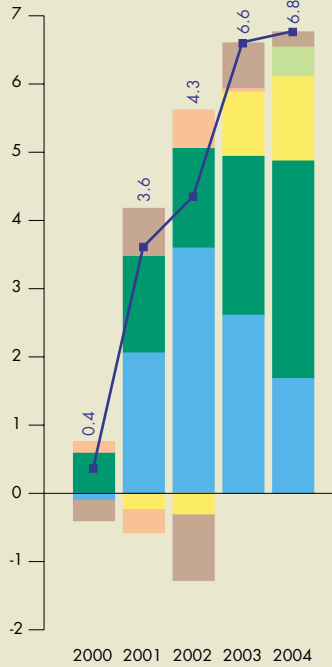


## Group Five-Year Financial Profile

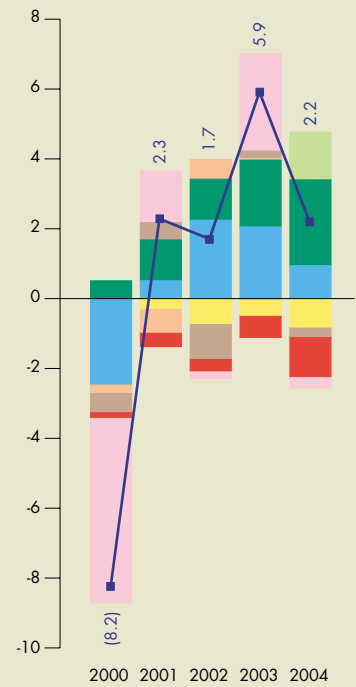
**REVENUE**  
(S\$ million)



**EBITDA**  
(S\$ million)



**PROFIT/(LOSS) BEFORE TAX**  
(S\$ million)



■ OILFIELD AND MARINE 
 ■ ENGINE SYSTEMS 
 ■ SUBSEA ROBOTICS 
 ■ TRADING 
 ■ MULTI-DISCIPLINED ENGINEERING 
 ■ OTHERS 
 ■ FINANCE COSTS 
 ■ EXCEPTIONAL ITEMS 
 ■ GROUP NET TOTAL

## Group Five-Year Financial Profile

|   | Restated |        | 2002   | 2003   | 2004   |
|---|----------|--------|--------|--------|--------|
|   | 2000     | 2001   |        |        |        |
| <b>For the year (in S\$'000)</b>              |          |        |        |        |        |
| Revenue                                       | 37,267   | 49,670 | 42,412 | 48,030 | 52,738 |
| EBITDA  | 357      | 3,601  | 4,342  | 6,600  | 6,762  |
| Profit/(loss) before exceptional items        | (2,888)  | 799    | 1,914  | 3,111  | 2,535  |
| Profit/(loss) before tax                      | (8,198)  | 2,280  | 1,693  | 5,910  | 2,203  |
| Profit/(loss) after tax                       | (7,879)  | 1,862  | 1,259  | 5,150  | 1,327  |
| Profit/(loss) attributable to shareholders    | (7,879)  | 1,949  | 1,481  | 5,385  | 1,705  |
| <b>At year end (in S\$'000)</b>               |          |        |        |        |        |
| Net current assets                            | 11,273   | 12,355 | 10,202 | 12,923 | 4,722  |
| Total assets                                  | 43,363   | 45,926 | 48,161 | 60,675 | 66,405 |
| Total liabilities                             | 18,134   | 18,454 | 19,333 | 28,415 | 33,437 |
| Net debt <sup>1</sup>                         | 4,062    | 4,482  | (565)  | 5,641  | 14,024 |
| Shareholders' funds                           | 25,229   | 27,163 | 27,934 | 31,290 | 32,277 |
| Net tangible assets <sup>2</sup>              | 25,229   | 27,163 | 27,934 | 29,127 | 24,819 |
| <b>Financial Ratios</b>                       |          |        |        |        |        |
| Net profit/(loss) margin                      | (22.00%) | 4.59%  | 3.99%  | 12.30% | 4.18%  |
| Return on shareholders' funds <sup>3</sup>    | (32.50%) | 8.39%  | 6.06%  | 18.89% | 6.83%  |
| Interest cover <sup>4</sup>                   | 3.16x    | 9.43x  | 14.72x | 11.79x | 6.21x  |
| Net debt gearing ratio <sup>5</sup>           | 13.87%   | 14.05% | N.A.   | 14.88% | 29.84% |
| <b>Per share data</b>                         |          |        |        |        |        |
| Basic earnings/(loss) (in cents) <sup>6</sup> | (9.95)   | 2.46   | 1.87   | 6.80   | 2.15   |
| Net tangible assets (in cents) <sup>7</sup>   | 31.85    | 34.30  | 35.27  | 36.78  | 31.20  |
| Gross dividend (in cents)                     | –        | 1.25   | 2.50   | 2.50   | 2.50   |
| Gross dividend yield <sup>8</sup>             | –        | 3.13%  | 8.33%  | 6.41%  | 5.81%  |
| Price at year end (in cents)                  | 50.00    | 40.00  | 30.00  | 39.00  | 43.00  |

<sup>1</sup> Net debt is defined as gross debt less cash and bank balances.

<sup>2</sup> Net tangible assets is defined as shareholders' funds less intangible assets.

<sup>3</sup> Return on shareholders' funds is defined as profit before taxation divided by shareholders' funds.

<sup>4</sup> Interest cover is defined as EBITDA divided by net interest expense. Net interest expense refers to interest expense less interest income.

<sup>5</sup> Net debt gearing ratio is defined as the ratio of net debt to net capitalisation. Net capitalisation is the aggregate of net debt, shareholders' funds and minority interests.

<sup>6</sup> Basic earnings/(loss) per share is defined as profit/(loss) attributable to shareholders divided by weighted average number of issued shares.

<sup>7</sup> Net tangible assets per share is defined as net tangible assets divided by total number of issued shares.

<sup>8</sup> Gross dividend yield per share is defined as gross dividend divided by year-end market price.



## Group Financial Performance for the Year

|  |      | 1Q<br>S\$'000 | 2Q<br>S\$'000 | 3Q<br>S\$'000 | 4Q<br>S\$'000 | Total<br>S\$'000 |
|--|------|---------------|---------------|---------------|---------------|------------------|
| <b>Revenue</b>                             | 2004 | 12,017        | 12,288        | 13,832        | 14,601        | 52,738           |
|  | 2003 | 10,270        | 12,943        | 12,063        | 12,754        | 48,030           |
| <b>Profit before exceptional items</b>     | 2004 | 745           | 536           | 73            | 1,181         | 2,535            |
|  | 2003 | 621           | 836           | 876           | 778           | 3,111            |
| <b>Exceptional items</b>                   | 2004 | –             | –             | –             | (332)         | (332)            |
|  | 2003 | 2,799         | –             | –             | –             | 2,799            |
| <b>Profit before taxation</b>              | 2004 | 745           | 536           | 73            | 849           | 2,203            |
|  | 2003 | 3,420         | 836           | 876           | 778           | 5,910            |
| <b>Profit after taxation</b>               | 2004 | 505           | 252           | 97            | 473           | 1,327            |
|  | 2003 | 3,272         | 749           | 716           | 413           | 5,150            |
| <b>Profit attributable to shareholders</b> | 2004 | 563           | 395           | 300           | 447           | 1,705            |
|  | 2003 | 3,276         | 560           | 778           | 771           | 5,385            |
| <b>Earnings per share (in cents)</b>       | 2004 | 0.71          | 0.50          | 0.38          | 0.56          | 2.15             |
|  | 2003 | 4.14          | 0.71          | 0.98          | 0.97          | 6.80             |

### REVENUE

Group revenue for FY2004 rose 9.8% to S\$52.7 million compared to that of FY2003. Improvement in the revenue was mainly attributable to maiden contributions from the newly acquired fuel injection business of Adelaide Fuel Injection group ("AFI group") business, offset by lower revenue generated by Subsea Robotics division during the first three quarters of FY2004. The slowdown in the oilfield equipment repair segment also moderated the revenue growth.

### PROFIT

The Group's profit before taxation for FY2004 fell 62.7% to S\$2.2 million mainly due to the absence of a S\$3.5 million gain recognised in the previous financial year upon disposition of the Group's Marine Repair Services division. The significant losses sustained by Subsea Robotics division and the weaker performance of the Oilfield Engineering division also affected FY2004's profit.

## Group Financial Performance for the Year

During FY2004, the Subsea Robotics division experienced low fleet utilisation of its ROVs operating in the North Sea. After a strategic review, a decision was made in October 2003 to restructure its Aberdeen operations whereby all its North Sea fleet was relocated to Asia and the Middle East. The exercise was completed in 4QFY2004 and a one-time cost of S\$0.3 million was incurred. Following the fleet relocation, the division managed to achieve moderate recovery on its fleet-based revenue in 4QFY2004.

The Oilfield Engineering division was adversely affected by weak demand for oilfield equipment repair services during the second half of FY2004. Mounting competition in the regional oilfield equipment repair sector, coupled with the increased raw material prices, exerted pressure on job margins.

Overall, the Group's performance for FY2004 was helped by stronger earnings from the Engine Systems division. In particular, the division enjoyed strong earnings from AFI group operations during the second half of FY2004.

In FY2004, the Group also reaped positive returns on its investment in its listed associate, RCR Tomlinson Ltd. The Group took up its share of RCR's after-tax results up to 31 December 2003 which amounted to S\$0.5 million, and recognised negative goodwill of S\$0.9 million arising from acquisition of RCR shares.

Favourable exchange movements also moderated the decrease in the Group's earnings.

### **EARNINGS PER SHARE (EPS)**

The basic and diluted EPS for FY2004 was 2.15 cents and 2.14 cents respectively, which were about one-third those achieved in FY2003. The lower EPS was mainly attributable to the absence of a S\$3.5 million gain recognised in FY2003 upon disposition of the Group's Marine Repair Services division.

### **BALANCE SHEET**

Total assets increased by 9.4% from S\$60.7 million as at 31 March 2003 to S\$66.4 million as at 31 March 2004. The increase was mainly due to acquisition of AFI group business and purchase of additional shares in RCR during FY2004, offset by lower receivables and reduced cash balances. As a result of the additional shares purchase, the Group's interest in RCR rose from 19.9% as at 31 March 2003 to 28.0% as at 31 March 2004.

## Group Financial Performance for the Year

Total liabilities increased by 17.6% from S\$28.4 million as at 31 March 2003 to S\$33.4 million as at 31 March 2004. The increase was mainly attributed to increase in bank borrowings and loan from a minority shareholder of a subsidiary during FY2004. The additional borrowings were taken to part-finance the acquisition of the AFI group business and fund working capital needs. Borrowings of the Group's subsidiary company in Australia were also translated at higher exchange rate due to the strengthening of the Australian dollar.

Shareholders' funds as at 31 March 2004 stood at S\$32.3 million, which is 3.2% higher than the S\$31.3 million level as at 31 March 2003.

### CASH FLOWS

Cash flows generated from operating activities increased 48.1% from S\$3.7 million in FY2003 to S\$5.4 million in FY2004. The higher cash flows were led mainly by more favourable working capital movements arising from an improved receivable position.

S\$11.5 million was invested by the Group principally in the following:

- purchase of plant and equipment;
- acquisition of business of AFI Group; and
- acquisition of additional shares in its associated company, RCR, through an on-market bid as well as its capital raising exercise.

This compares against S\$7.4 million invested in FY2003. While FY2003 saw a higher investment of S\$9.7 million in plant and equipment, the additional outlay was mitigated by the proceeds of S\$7.8 million received upon disposition of the assets of the Group's Marine Repair Services division.

Cash flows generated from financing activities reduced from S\$6.6 million in FY2003 to S\$1.4 million in FY2004. The decline was mainly attributable to lower new borrowings (net of repayment) in the year under review.

### DIVIDENDS

The Board of Directors are recommending a final dividend of 6% less tax at 20% to be paid for FY2004. Together with the interim dividend of 4% less tax at 22%, which was paid in November 2003, the total dividend for FY2004 is 10%, similar to the level of dividends declared and paid for FY2003. The expected cash outflow for the FY2004 dividend after tax deduction is, however, 14.2% or S\$0.2 million higher than that paid out in the previous year due to the larger share capital base of the Company.

## Group Value Added Statement

The total value added of the Group was S\$22.7 million in FY2004, a decrease of S\$1.1 million (4.6%) from FY2003.

Of the total value added, S\$15.4 million (67.9%) went to wages, provident fund contributions and other benefits. Interest on bank borrowings amounted to S\$1.2 million (5.1%), while dividends to shareholders was S\$1.5 million (6.8%). Income taxes and levies accounted for S\$1.0 million (4.6%). S\$1.7 million was retained in the business.

|  | 2004<br>S\$'000 | 2003<br>S\$'000 |
|--|-----------------|-----------------|
| <b>Value Added</b>   |                 |                 |
| Revenue  | 52,738          | 48,030          |
| Bought-in materials and services                                 | (33,554)        | (25,705)        |
| <b>Gross value added</b>   | <b>19,184</b>   | <b>22,325</b>   |
| Other revenue  | 450             | 772             |
| Investment income  | –               | 46              |
| Exchange gain  | 1,600           | 691             |
| Share of after-tax results of associated company                 | 1,473           | –               |
| <b>Total value added</b>   | <b>22,707</b>   | <b>23,834</b>   |
| Gross value added per employee (S\$'000)                         | 78              | 97              |
| Gross value added per dollar of employment costs (S\$)           | 1.24            | 1.53            |
| Gross value added per dollar of investment in fixed assets (S\$) | 0.37            | 0.47            |
| Gross value added per dollar sales (S\$)                         | 0.36            | 0.46            |



## Group Value Added Statement

|  | 2004<br>S\$'000 | 2003<br>S\$'000 |
|--|-----------------|-----------------|
| <b>Distribution</b>                                      |                 |                 |
| To employees   |                 |                 |
| Wages, provident fund contributions and other benefits   | 15,425          | 14,585          |
|  | 15,425          | 14,585          |
| To providers of capital                                  |                 |                 |
| Interest on borrowings                                   | 1,149           | 633             |
| Dividends to shareholders                                | 1,549           | 2,162           |
|  | 2,698           | 2,795           |
| To government  |                 |                 |
| Income taxes and levies                                  | 1,035           | 814             |
|  | 1,035           | 814             |
| Retained in the business                                 |                 |                 |
| Depreciation of property, plant and equipment            | 3,824           | 2,860           |
| Amortisation of goodwill                                 | 243             | 69              |
| Staff costs capitalised as assets under construction     | (514)           | (986)           |
| Retained earnings  | (1,444)         | 2,486           |
| Minority interests                                       | (378)           | (235)           |
|  | 1,731           | 4,194           |
| Non-production costs and income                          |                 |                 |
| Bad debts written off                                    | 79              | 15              |
| Goodwill written off                                     | 81              | 6               |
| Loss / (profit) on sale of property, plant and equipment | 6               | (16)            |
| Provision for doubtful debts                             | 52              | 19              |
| Exchange gain  | 1,600           | 691             |
| Investment income  | -               | 46              |
| Provision for diminution in value of investment          | -               | 685             |
|  | 1,818           | 1,446           |
|  | <b>22,707</b>   | <b>23,834</b>   |
| <b>Total Distribution</b>                                | <b>22,707</b>   | <b>23,834</b>   |

## Risk Management

While the Group's three core businesses are essentially engineering-based, the clientele and geographical markets serviced by each division is distinct. As such, the Group is exposed to a variety of risks unique to each division and effective risk management is critical.

**Operational risk** - The Group's Oilfield Engineering division provides engineering services for the reconditioning of oilfield equipment. Demand for its services is highly susceptible to the cyclical nature of oil and gas activities in its key markets in South East Asia. The division manages this risk through building strong relationships with its principals, constantly seeking to expand its service range and market base as well as placing strong emphasis on production efficiency.

The success of the Engine Systems division hinges on its ability to maintain market leadership and achieve further meaningful growth in a matured business. The division looks towards leveraging on its nationwide network to venture into complementary businesses which could widen its earning base without having to incur duplicate infrastructural costs. The division is also seeking to expand its operations geographically with the commencement of its Indonesian operations being the first of such initiatives.

The ability to secure a minimum utilisation level for its ROV fleet is pivotal to achieving a satisfactory return on the substantial capital investment of the Subsea Robotics division. The division seeks to address this risk through constant market review and positioning its fleet in right market. To this end, the division restructured its North Sea operations and relocated its fleet to Asia and the Middle East where management believes offer opportunities for higher fleet utilisation.

The Group recognises that human resources are critical in all three divisions. Maintaining a skilled workforce equipped to meet the quality demands within the specialised fields in which we operate will stand us in good stead in the competitive environment. A total human resource development programme is currently being implemented to identify, train and develop the Group's employees.

## Risk Management

**Investment risk** - The Group seeks growth in its business chiefly through organic growth as well as acquisition of complementary businesses. To mitigate investment risks, detailed evaluation and due diligence of identified targets are performed by the Group's project teams and/or external professionals. The investment proposals are also guided by a given set of internal investment criteria, reviewed by senior management before seeking final Board approval.

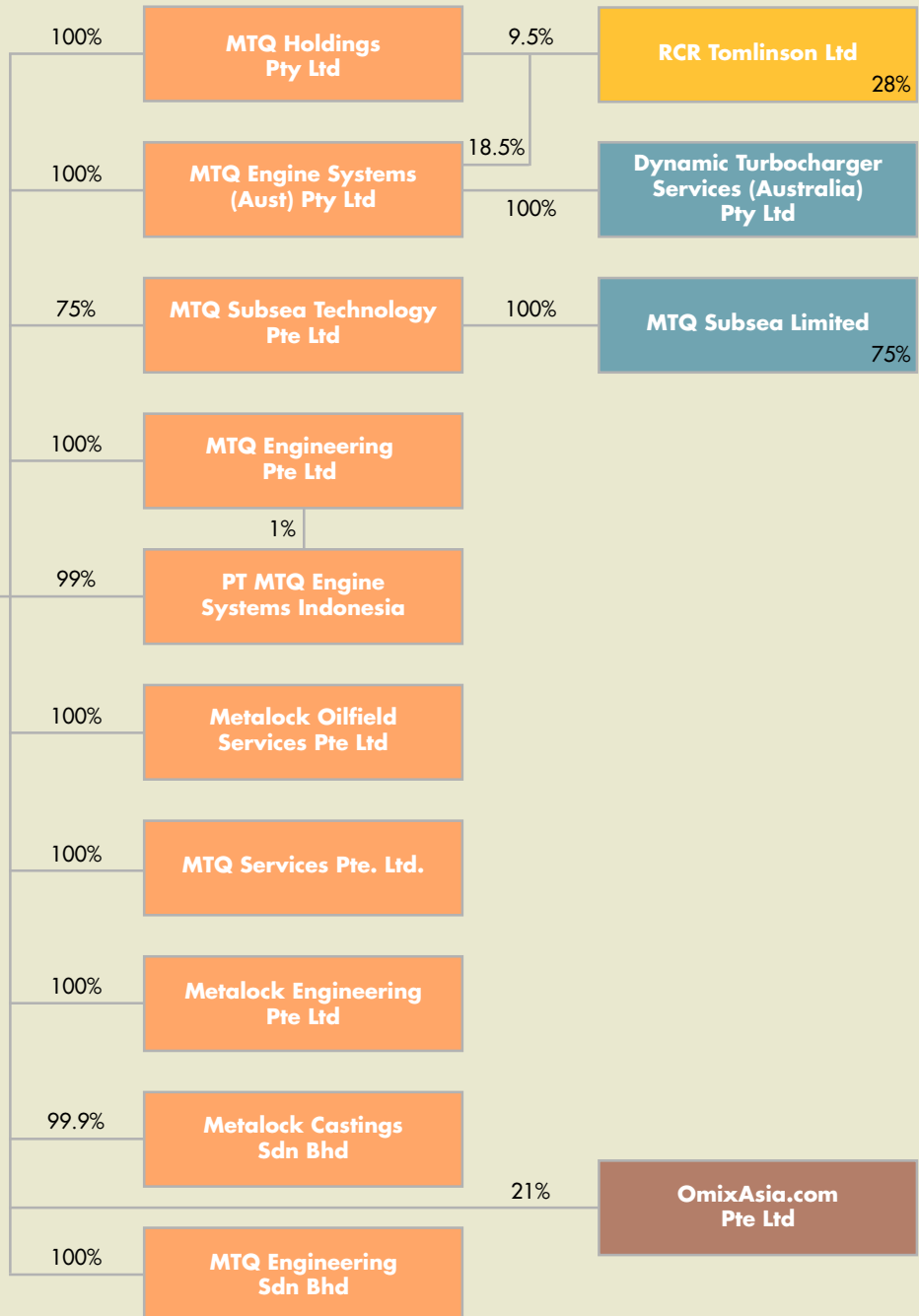
The growth strategy adopted by the Group may also see different units operating on separate information technology platforms. This could impede efficient communication and information flow, and may have adverse implications on business functionality and decision making. The Group's MIS department actively reviews the IT infrastructure of the Group's existing businesses and that of potential investments to ensure connectivity or easy data migration.

A significant portion of the Group's investments are based offshore. As such, any significant foreign exchange fluctuation could have an impact on the Group's performance. Where practicable, the Group adopts a natural hedge by borrowing in the same currency in which the acquired investments or assets base are denominated.

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

The Group's financial risk management objectives and policies are further discussed in Note 32 to the financial statements.

## Group Structure





Operations Review

## Oilfield Engineering Division



The Oilfield Engineering division continued to maintain its market leadership in FY2004 through constant emphasis on service quality and efficiency. Its equipment renewal and upgrading programme completed in the previous year have shown results in faster turnaround time. The division has also successfully adopted the twin welding procedure which significantly improved production time.

Performance for FY2004 was however affected by an unexpected decline in demand for upgrading and repair of rig equipment despite an overall buoyant oil and gas industry since the second half year. This translated into a 16.0%

**“...we are committed to prevail over future challenges by protecting our margin and improving sales.”**



decline in revenue contribution from S\$16.3 million in FY2003 to S\$13.7 million in FY2004. Despite the cyclical downturn, the division is undeterred and is casting its marketing net wider across Asia and beyond.

It also sought actively to widen the breadth of its service-based activities. In FY2004, it successfully completed the engineering, fabrication and assembly of an inlet manifold skid for the extension of 5 additional wells on an oilfield platform.

Meanwhile, resources in the production and sales front were also realigned to increase operational efficiency and forge stronger business relationship with OEMs, drilling contractors and rig owners.

Demand for upgrading and repair of rig equipment is likely to recover in the new financial year, albeit at a gradual pace. Nevertheless, mounting competition in the regional oilfield repair sector and sharp inflation in material and consumables prices will continue to exert pressure on job margins.

In the year ahead, we are committed to prevail over future challenges by protecting our margin and improving sales.



## Engine Systems Division



**Launching further into Australia's fuel injection industry, the Engine Systems division emerged stronger than ever: its operating revenue grew by 40.9% to S\$32.7million in FY2004.**

In October 2003, the division successfully acquired the business assets of Adelaide Fuel Injection group of companies ("AFI") as part of its long term growth strategy.

**“By leveraging on its engine systems expertise, the division extended its growth track into South East Asia...”**



AFI is an authorised and approved service dealer for major diesel fuel injection equipment manufacturers in Australia including Bosch, Denso, Delphi and Stanadyne. The acquisition of AFI, along with the acquisition of RM Diesel Pty Ltd's fuel injection parts distribution business earlier in August 2002, has transformed the division to become a dominant player in the distribution of fuel injection parts and a significant provider of fuel injection servicing.

FY2004 witnessed healthy earnings from the division's turbocharger operations attributable to firm contributions from its small frame turbocharger. Its large frame turbocharger activities also successfully penetrated further into other land-based industries, notably the power generation, with an aim to consolidate a broader customer base.

Greater utilisation of its re-manufacturing capability to support its turbocharger business also allowed the division an additional competitive edge and provided the necessary platform to support margin growth.

The division is also in the process of implementing a new IT infrastructure to facilitate better inventory control, internal communication and timeliness in reporting.

By leveraging on its engine systems expertise, the division extended its growth track into South East Asia as it commenced operations in Surabaya, Indonesia. To supplement organic growth within its mainstay Australian market, plans to expand the scale of its operations geographically will be a major agenda for the division in the current year. For better performance, efforts will also be taken to improve the overall effectiveness of the division's human resource.



## Subsea Robotics Division



**FY2004 marked a turbulent year for the Subsea Robotics division. Apart from trying to put our business strategy right, significant amount of time was also spent in pursuing the long, protracted insurance matter on the lost Phoenix ROV.**

The division's revenue for FY2004 fell 7.8% to S\$6.4 million as compared to the previous year. For the first half of FY2004, the operations in North Sea failed to recover from a difficult winter. Job margins came under pressure as a result of low fleet revenue relative to high overheads. Following a review of the

**“We intend to penetrate deeper into the Asia and Middle Eastern markets and actively seek to maximise our fleet utilisation level.”**



business strategy, the management made a decision to restructure its Aberdeen operations which involved relocating its North Sea fleet to operate in the markets of Asia and the Middle East. While one-time restructuring costs were incurred upfront, significant recurring cost savings will be derived with the consolidation of the marketing and administrative functions through its Singapore base.

Following the completion of the fleet relocation program in fourth quarter of FY2004, the division experienced moderate recovery in activity levels towards the end of the financial year. In fact, its 2 Swift-range ROVs which were launched in the South East Asian market during late FY2003 had achieved satisfactory level of utilisation. Given its engineering capabilities geared for Asian waters, the Swift-range ROVs received positive feedback on its functionality and were quickly accepted by Asian operators. We intend to penetrate deeper into the Asia and Middle Eastern markets and actively seek to maximise our fleet utilisation level.

Meanwhile, opportunities are also being explored to enhance the division's performance through strategic alliances with other complementary service providers.

With the restructuring completed and the insurance dispute satisfactorily resolved, the management can move on with a more integrated focus for better operating results.

## Calendar of Events

### 1 April 2003

Extended our interest in RCR Tomlinson Limited ("RCR") from 20% to 23% through on-market purchase of additional shares.

### 1 May 2003

The Group launched an on-market bid for all the shares in RCR.

### 17 September 2003

Expansion of Engine Systems division into South East Asia kicked off with the incorporation of its Indonesian unit in Surabaya.

### 24 October 2003

Made further inroads into the fuel injection industry with the acquisition of the business of AFI group.

### 11 February 2004

Successful resolution of insurance claim dispute relating to loss of Phoenix 2 ROV since November 2002.

### 28 April 2003

Metalock (Singapore) Limited embraces a new corporate identity with its new name, MTQ Corporation Limited.

### 16 June 2003

The Group garnered an additional 5% stake in RCR at the close of the on-market bid. Equity interest in RCR raised to 28%.

### 14 October 2003

Decision taken to restructure Aberdeen operations of the Subsea Robotics division and relocate ROV fleet in the North Sea to Asia and the Middle East.

### 31 October 2003

Proposal to implement a scrip dividend scheme, subject to shareholders' approval.

### 13 April 2004

15,871,000 new shares issued pursuant to share placement exercise. Proceeds will be used to fund the Group's business expansion and to increase working capital.



People & Community

## Board of Directors

Mr. Kuah joined the Board of MTQ Corporation Limited ("MTQ") on 1 January 1997 and was appointed as Executive Chairman on 9 September 1997, redesignated as Chairman & CEO on 2 May 2002. He serves on the board of all subsidiaries of MTQ.

**KUAH KOK KIM**  
Chairman and CEO

He is also a Director of RCR Tomlinson Ltd, a leader in Western Australia in multi-disciplined engineering listed on the Australian Stock Exchange.

Mr. Kuah possesses extensive business experience which was accumulated through his many years of involvement in the marine logistics as well as oil and gas related industries. Mr. Kuah was also engaged in the machine distribution and repair business before joining MTQ.

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Mr. Eng joined the Board on 9 September 1997 and was appointed Chairman of its Remuneration Committee on 22 September 1997. He also serves on the Audit Committee.

**PHILIP ENG HENG NEE**  
Director

Mr. Eng is the Group Managing Director of Jardine Cycle & Carriage Limited where he has served in various positions since 1982. He is also a Director of MCL Land, Cycle & Carriage Bintang Bhd and is on the Board of Commissioners of PT Astra International. He is Singapore's High Commissioner to Nigeria, resident in Singapore.

Mr. Eng graduated from the University of New South Wales with a Bachelor in Commerce (Accountancy) and is qualified as a Chartered Accountant of the Institute of Chartered Accountants of Australia.

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Mr. Spence joined the Board on 15 January 2002. He is Chairman of the Audit Committee, and a member of the Remuneration Committee. He is also a Director of both MTQ Subsea Technology Pte Ltd and RCR Tomlinson Ltd.

**IAN WAYNE SPENCE**  
Director

Mr. Spence, a Singapore permanent resident, also sits on the board of Eu Yan Seng International Ltd and 5 other privately owned groups of companies in South East Asia.

He graduated from Otago University in New Zealand with a Commerce degree and is qualified as a Chartered Accountant.



## Board of Directors

### **ONG CHOO ENG** Director

Mr. Ong joined the Board since 9 September 1997. He is a member of the Audit and Remuneration Committees.

Mr. Ong is currently the Chairman and Group Managing Director of Hwa Hong Corporation Limited. He also sits on the boards of the Singapore Reinsurance Corporation Limited and BBR Holding (S) Limited.

Mr. Ong graduated with a Bachelor of Science (Honours) degree in Civil Engineering and a Master of Science degree in Advance Structural Engineering from Queen Mary College and Westfield College, University of London in 1990. Mr. Ong is a Chartered Civil Engineer (UK) and a Registered Professional Engineer (Singapore).

### **SAMUEL BERNARD SASSOON** Director

Mr. Sassoon joined the Board on 8 August 2001. He is also the Managing Director and one of the founders of MTQ Subsea Technology Pte Ltd.

Mr. Sassoon has 15 years of experience in Remotely Operated Vehicles businesses. He holds memberships at the Chartered Management Institute (UK) and the Institute of Industrial Engineers.

A Bachelor of Social Sciences (Economics) graduate from the National University of Singapore, Mr. Sassoon also holds a Master of Arts (Management) Degree from the University of Leeds.

### **HUANG YUAN CHIANG** Director

Mr. Huang was first appointed to the Board on 8 August 2001. He is a member of the Audit and Remuneration Committees. He is also a Director of MTQ Subsea Technology Pte Ltd.

Mr. Huang is a lawyer by training and an investment banker by vocation. His career in investment banking spanned 12 years and he has held senior management positions with various international banks including Standard Chartered Bank, HSBC, Bankers Trust and Deutsche Bank. His last position at Bankers Trust was Managing Director, overseeing the Mergers & Acquisitions Division of Bankers Trust for Singapore, Malaysia, Thailand, Indonesia, Philippines and India.

Apart from the Company, Mr. Huang sits on the boards of other listed companies in Singapore and Malaysia, including Jurong Cement Limited, BBR Holdings (S) Limited, ISG Asia Limited and Broadway Industrial Group Limited.

Mr. Huang has degrees in Economics and Law.

## Senior Management

### CORPORATE OFFICE

#### **KUAH KOK KIM**

Chairman & CEO

#### **WILLIAM FONG CHOON SENG, CPA**

Group Financial Controller

Mr. William Fong joined the Group in 1998 and has also been the Company Secretary since 1999. He is overall responsible for the financial and accounting controls, investor relations, management information systems and the corporate secretarial functions of the Group. Mr. Fong has about 15 years of financial control and audit experience. Graduated from The Association of Chartered Certified Accountants (ACCA), he is currently a member of the Institute of Certified Public Accountants of Singapore as well as a fellow member of ACCA.

#### **SHIRLEY ONG**

MIS Manager

#### **TIFFANY YAP**

Human Resource & Admin Manager

### OILFIELD ENGINEERING DIVISION

#### **PETER LOCK**

Managing Director

Mr. Peter Lock joined the Group as a welding engineer in 1982. He was responsible for spearheading the Group's expansion into the oilfield engineering business. Over the 21 years in MTQ, he had built up the oilfield engineering business to its present size and performance, through the implementation of an aggressive marketing policy of pursuing strategic alliance with OEMs and stringent emphasis on work efficiency and quality. He was promoted to Managing Director of MTQ engineering Pte Ltd in May 2003.

#### **ALFRED TEO**

Senior Manager

#### **TEO CHOON KIAN**

Sales Manager

#### **LAI CHEE KEONG**

Workshop Manager

### ENGINE SYSTEMS DIVISION

#### **RICHARD WILLIAM WARD**

CEO

Mr. Richard William Ward joined the Engine Systems business since 1989. A trained tradesperson in automotive engineering and diesel engineering with extensive managerial experience, he played a significant role in transforming the then five-branch operations into today's leading independent supplier of turbocharger parts and services. Following MTQ's acquisition of the business in 1999, the Group has retained his services as CEO of MTQ Engine Systems (Aust) Pty Ltd. The unit continued to expand into complementary fuel injection business under his leadership.

#### **STEVE KING**

General Manager

#### **GARRY J SWAINSON**

Director (Indonesia)

### SUBSEA ROBOTICS DIVISION

#### **SAMUEL BERNARD SASSOON**

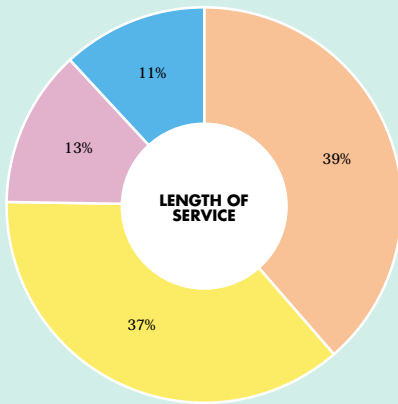
Managing Director

#### **JOHN CLARKE**

Engineering Director

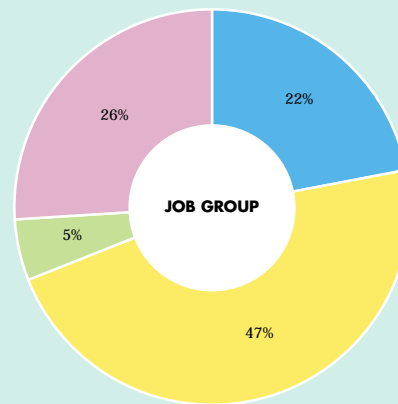


## Employees Profile



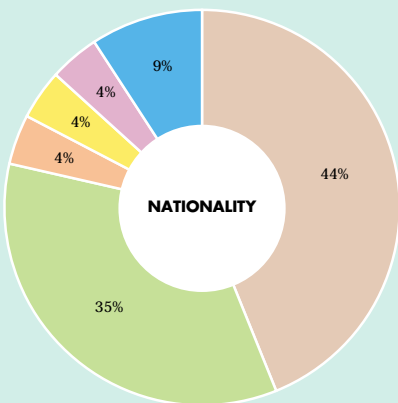
|                  |  |    |
|------------------|--|----|
| Less than 3yrs   | <span style="color: #f4a460;">■</span> | 96 |
| 3 to 8+yrs       | <span style="color: #f1c232;">■</span> | 91 |
| 9 to 14+yrs      | <span style="color: #f9e79f;">■</span> | 31 |
| More than 15 yrs | <span style="color: #4f81bd;">■</span> | 29 |

Total 247



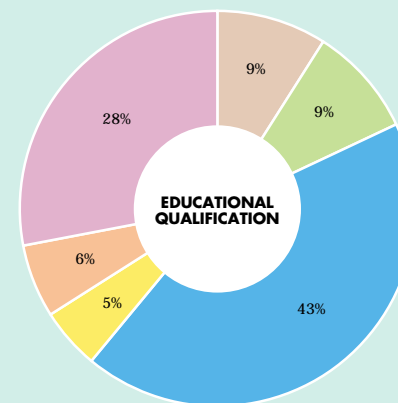
|                    |  |     |
|--------------------|--|-----|
| Managerial         | <span style="color: #4f81bd;">■</span> | 54  |
| Engineering        | <span style="color: #f1c232;">■</span> | 116 |
| Corporate Services | <span style="color: #9bc296;">■</span> | 12  |
| Admin & Others     | <span style="color: #e69c9b;">■</span> | 65  |

Total 247



|           |  |     |
|-----------|--|-----|
| Australia | <span style="color: #e69c9b;">■</span> | 107 |
| Singapore | <span style="color: #9bc296;">■</span> | 85  |
| Malaysia  | <span style="color: #f4a460;">■</span> | 11  |
| PRC       | <span style="color: #f1c232;">■</span> | 11  |
| Britain   | <span style="color: #e69c9b;">■</span> | 10  |
| Others    | <span style="color: #4f81bd;">■</span> | 23  |

Total 247



|                        |  |     |
|------------------------|--|-----|
| Degree & equivalent    | <span style="color: #e69c9b;">■</span> | 22  |
| Diploma & equivalent   | <span style="color: #9bc296;">■</span> | 22  |
| Trade Certificate      | <span style="color: #4f81bd;">■</span> | 106 |
| "A" Level & equivalent | <span style="color: #f1c232;">■</span> | 13  |
| "O" Level & equivalent | <span style="color: #f4a460;">■</span> | 16  |
| Below "O" Level        | <span style="color: #e69c9b;">■</span> | 68  |

Total 247

## Building A Strong Team



*In MTQ, we recruit the right people for the right team and continuously nurture them because we believe that a company is only as good as its people.*

Recognising the need to strengthen its human capital through continuous training and development, MTQ implemented its Total Human Resource Management System ("THuMRS") in FY2004. Under THuMRS, independent processes of recruitment, performance review, remuneration review, and employee training and development are integrated and aligned with MTQ's business strategy.

The human resource policies are reviewed systematically and a structured approach towards staff development is adopted. Training requirements are identified on a periodic basis, and the effectiveness of training programme is assessed based on pre-set training objectives. These initiatives help reduce training wastages, achieve better business performance and build a more motivated workforce.



## **Building A Strong Team**

Emphasis on workplace environment, health and safety also feature as important elements in the Group's human resource philosophy. In particular, a Workplace Health Promotion programme was implemented to inculcate personal responsibility towards one's health.

The Group has also moved away from a seniority-based reward system under THuMRS to embrace a performance-based reward structure. This entails the adoption of a systematic annual staff appraisal whereby the performance of each individual staff is assessed against the goals set for the year under review. The goals of each and every individual staff are set in alignment with MTQ's corporate objectives.

MTQ values people as its greatest asset and strongly believes in investing in human capital. Going forward, the Group will continuously improve its integrated system of developing its employees through result-oriented goal setting, effective performance management, constructive performance reviews and merit-based compensation and reward structure.

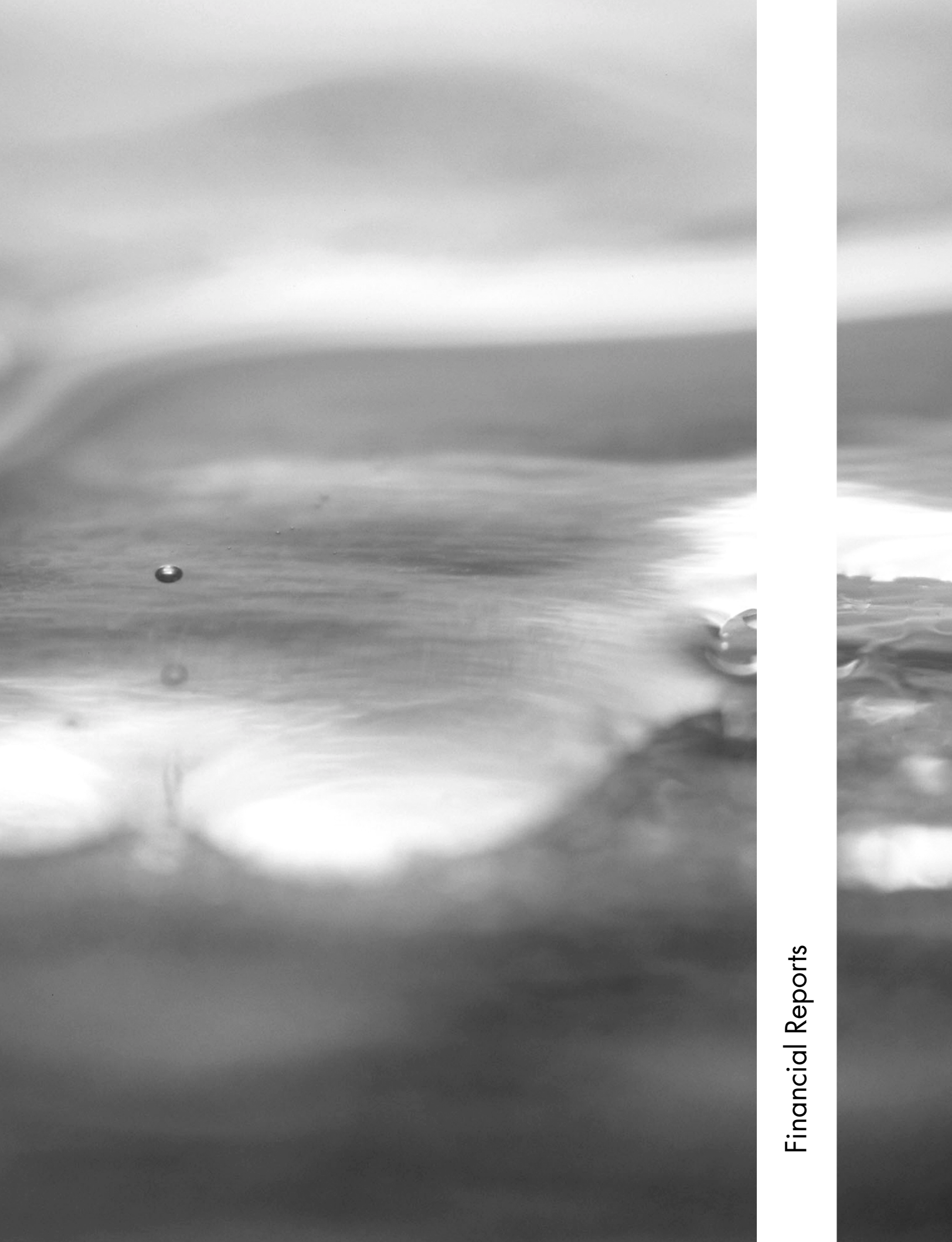
## Social Responsibility



### *Corporate volunteerism - MTQ cares for its community*

MTQ believes that a good corporate citizen gives back to the communities in which it operates and invests in. In fulfilling its social responsibility, MTQ employees organised a community project in which they volunteered to provide a Saturday afternoon of companionship to the elderly at Villa Francis Home For The Aged. During the visit, the volunteers mingled with the residents while serving them high tea. The volunteers also gamely performed and sang, spreading cheer and companionship to the elderly.

Going forward, the management will continue to encourage its employees to participate more actively in community services.



Financial Reports

## Financial Reports

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## Corporate Governance Report

MTQ Group believes strongly in upholding the spirit and principles of the Code of Corporate Governance (the "Code") to enhance its corporate performance and accountability. The same belief is echoed in its core values as being Sincere, Transparent, Alert and Responsible.

The Group seeks to enhance and maximise its shareholder value through professionalism, integrity and commitment of our Board members and employees, and with the support of sound policies, practices and self-regulatory controls. The Group subscribes fully to the principles and recommendations in the Code where it is applicable, relevant and practical to the Group.

This Report describes our corporate governance policies and practices with specific reference to the Code. For ease of reference, the relevant provisions of the Code under discussion is identified in bold. However, other sections of this Report may also have an impact on the disclosures as this Report is meant to be read as a whole.

### **BOARD OF DIRECTORS**

#### Principle 1 : The Board's Conduct of Its Affairs

The Board of MTQ Corporation Limited assumes stewardship and control of the Group's resources and undertakes overall responsibility for corporate governance and performance of the Group. It sets the vision and objectives of the Group and directs the Group's strategic policies. The Board also reviews the financial performance of the Group and oversees the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance. These functions are carried out either directly by the Board or delegated to Board Committees. The responsibilities of each Committee are described under "Board Committees" below. The Chairman of each Committee will report to the Board the outcome of the Committee meetings.

Matters which are specifically reserved to the Board for decision are those involving a conflict of interest in respect of a substantial shareholder or a Director, material acquisitions and disposals of assets, corporate or financial restructuring and share issuances, dividends and other returns to shareholders as well as matters which require Board approval as specified under our interested person transaction policy. The Board also approves major decisions such as investment and divestment proposals, the annual budget, major funding proposals and expenditures exceeding a prescribed amount.

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are also convened when circumstances require. The Company's Articles of Association (the "Articles") allow a Board meeting to be conducted by way of telephone conferencing or any other methods of simultaneous communication by electronic or telegraphic means. The attendance of the Directors at meetings of the Board and Board Committees, as well as the frequency of such meetings, are disclosed in this Report.

## Corporate Governance Report

### Principle 4 : Board Membership

The Company does not have a Nominating Committee. All new nominations received are assessed and approved by the Board in line with its policy of ensuring nominees are persons of sufficient calibre and experience and who are able to contribute to the proper guidance of the Group and its businesses. To assist the Directors in discharging their duties, newly appointed Directors are briefed by the Chairman on the business operations of the Group and its strategic directions. The incoming Directors are also given access to the past years' annual reports and minutes of Board meetings.

New Directors must submit themselves for re-election at the next annual general meeting of the Company. Article 91 of the Articles requires not less than one-third of the Directors to retire by rotation at every annual general meeting. Each Director is required to retire at least once every three years.

The dates of initial appointment and last re-election of the Directors are set out below:

| DIRECTOR                           | DATE OF INITIAL APPOINTMENT | DATE OF LAST RE-ELECTION |
|------------------------------------|-----------------------------|--------------------------|
| Kuah Kok Kim (Executive)           | 01.01.1997                  | 20.06.2003               |
| Philip Eng Heng Nee (Independent)  | 09.09.1997                  | 05.07.2002               |
| Huang Yuan Chiang (Independent)    | 08.08.2001                  | 05.07.2002               |
| Ong Choo Eng (Non-executive)       | 09.09.1997                  | 20.06.2003               |
| Samuel Bernard Sassoon (Executive) | 08.08.2001                  | 05.07.2002               |
| Ian Wayne Spence (Independent)     | 15.01.2002                  | 05.07.2002               |

### Principle 2 : Board Composition and Balance

### Principle 3 : Chairman and Chief Executive Officer

The Company does not have a separate Chairman and CEO as the current scale of its business does not warrant such a division. Among his other duties, the Chairman's role is to schedule and chair Board meetings, prepare the agenda with the management and control the quality, quantity and timeliness of the flow of information to the Board and assist in compliance with the Company's guidelines on corporate governance. In carrying out his executive duties and responsibilities for the Group's operations and business, the Chairman is assisted by the Executive Director and management staff.

The Company's Articles has also made provision for the Chairman and CEO to be subject to the one-third rotation rule as well. This is to separate his role as CEO from his position as a Board member, and to enable shareholders to exercise their full rights to select all Board members. Although the Company does not have a separate Chairman and CEO, the Board is satisfied that no individual or small group of individuals dominate the Board's decision-making process.

## Corporate Governance Report

The Board reviews the independence of each Director on an annual basis and adopts the Code's definition of what constitute an independent director. During the financial year reported on, the Board comprises 2 executive and 4 non-executive Directors, of which 3 are independent Directors. As the majority of the Board members are non-executive Directors and at least one-third are independent Directors, the Board is of the opinion that it has sufficient independence and objectivity in ensuring that the appointment and re-election of directors is formal and transparent.

We believe that the contribution from each Director can be measured in ways other than just the Directors' attendance at formal meetings alone. A director would have been appointed on the strength of his calibre and relevant experience that could contribute to the proper guidance of the Group's businesses. Management can also access them for guidance or exchange of views outside the formal environment of Board meetings.

The Company has an on-going budget for the existing Directors to fund their participation at industry conferences and seminars where updates and developments on directors' roles and responsibilities can be obtained. Subject to approval by the Chairman, this budget may also be utilised by each Director for their attendance at any course of instructions/training programme in connection with their duties as Directors.

The Company Secretary has also, from time to time, updated the Directors with issues on disclosure of interest in securities, disclosure of any conflict of interests in a transaction involving the Company, prohibitions on dealing in the Company's securities and restrictions on disclosure of price-sensitive information.

The Company has adopted the stand that Directors are welcome to request further explanations, briefings or informal discussions on any aspects of the Group's operations or business issues from management. They can access the relevant management staff directly or request the Chairman to make the necessary arrangement for the briefings, informal discussions or explanations required. In addition, the Directors can, in furtherance of their duties, take independent professional advice, if necessary, at the Company's expense.

While the Company's Articles do not provide a cap to the maximum number of Directors, having regard to the current scale of the Group's business, the Directors are of the view that it is not practical or cost effective to have more than the requisite number of members in the Board. Despite a relatively small Board, it provides an effective blend of business and professional expertise in different fields which is further described in the "Board of Directors" section of the Annual Report.

### Principle 6 : Access to Information

In order to ensure that the Board is able to fulfil its responsibilities, management provides the executive Directors with monthly management accounts and other financial statements on a timely basis. Non-executive members of the Board are also furnished with management accounts and reports where necessary or as and when requested by them to ensure that they are able to carry out their duties. All Directors are also invited to participate in monthly division meetings with the management to discuss the operational and financial performance of the respective businesses.

## Corporate Governance Report

Board reports, including financial information, quarterly forecasts, significant corporate issues and management proposals which require the approval of the Board, are circulated to all Board members prior to the Board meetings.

The Directors have separate and independent access to the management as well as the Company Secretary.

The Company Secretary is responsible for the Company's compliance with its statutory duties. The Secretary's key role is to ensure that Board procedures are followed and regularly reviewed. The Secretary will also provide the Board with guidance on procedures under the Act, the Memorandum and Articles of the Company, the rules of SGX-ST and other relevant legislation. The Company Secretary attends and administers all Board meetings and prepares the minutes of Board proceedings.

### BOARD COMMITTEES

- Principle 5 : Board Performance
- Principle 7 : Procedure for Developing Remuneration Policies
- Principle 8 : Level and Mix of Remuneration
- Principle 9 : Disclosure on Remuneration

### REMUNERATION COMMITTEE

The Remuneration Committee comprises:

Philip Eng Heng Nee (Chairman)  
Huang Yuan Chiang  
Ian Wayne Spence  
Ong Choo Eng

The Remuneration Committee consists of 4 non-executive Directors of whom 3 are independent Directors who are free from any business or other relationships with the Company, its related companies or its officers that would interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgement with a view to the best interests of the Company.

The Remuneration Committee's role is to review and recommend to the Board, an appropriate and competitive framework of remuneration for the Board and key executives of the Group.

In setting the remuneration packages, the Remuneration Committee takes into account the performance of the Group, as well as individual Directors and key executives. In addition to linking rewards to the Group and individual performance, the remuneration packages are also designed to align their interests with those of shareholders.

To promote an ownership culture within the Group and to align the interests of the stewards and employees of the Group with the interests of shareholders, the Group has in place a share option scheme for Directors and employees, the MTQ Corporation Executives' Share Option Scheme 2003 (the "Scheme"). Directors who are also controlling shareholders of the Company are also allowed to participate in the Scheme. The Remuneration Committee is also responsible for the administration of the Scheme. Details of the Scheme have been set out in the Directors' Report.

## Corporate Governance Report

The remuneration scheme for executive Directors is linked to performance, service record, experience and scope of responsibility. Performance is measured against the profits or objectives set in the Group's business plan and strategy. Executive Directors who are receiving salaries as Directors of subsidiary companies may also receive directors' fees for their contribution as a Director of the Company. For non-executive Directors, the level of fees reflects the level of responsibility and time taken by them. The Chairman of the Audit Committee receives additional fees to take into account the nature of his responsibilities. On an annual basis, the Board will also assess their performance as a whole based on the achievement of the Group's strategic and long-term objectives.

Non-executive Directors do not have service contracts. The service contracts for executive Directors, if any, will have a fixed period and will not be excessively long or with onerous removal clauses. The terms of the service contracts also require the specific approval of the Board.

Directors' fees are recommended and endorsed by the Board for approval by shareholders of the Company at its annual general meetings. The Remuneration Committee is of the opinion that for the time being, except for the directors' fees, it is not necessary or practical for the policy in remuneration to be approved at the annual general meeting.

The remuneration of Directors are set out below:

|  | FEE  | SALARY/<br>ALLOWANCE | AWS/BONUS | BENEFITS |
|--|------|----------------------|-----------|----------|
| <b>Director</b>                                  |      |                      |           |          |
| I. \$250,000 and below \$500,000<br>Kuah Kok Kim | –    | 74%                  | 25%       | 1%       |
| II. \$250,000 and below                          |      |                      |           |          |
| Samuel Bernard Sassoon                           | 17%  | 73%                  | 6%        | 4%       |
| Philip Eng Heng Nee                              | 100% | –                    | –         | –        |
| Huang Yuan Chiang                                | 100% | –                    | –         | –        |
| Ong Choo Eng                                     | 100% | –                    | –         | –        |
| Ian Wayne Spence                                 | 100% | –                    | –         | –        |

Details of the share options granted to the Directors under the MTQ Corporation Executives' Share Option Scheme 2003 are disclosed in the Directors' Report.

For competitive reasons, we are not disclosing the remuneration of our key executives.

There is no employee of the Company or the Group who is an immediate family member of a Director or the CEO during the financial year under review.

## Corporate Governance Report

Principle 11 : Audit Committee

Principle 12 : Internal Controls

Principle 13 : Internal Audit

### AUDIT COMMITTEE

The Audit Committee comprises 4 non-executive Director members, of whom 3 are independent Directors:

Ian Wayne Spence (Chairman)  
Philip Eng Heng Nee  
Huang Yuan Chiang  
Ong Choo Eng

The Audit Committee has been set up to perform the functions required pursuant to Section 201B(5) of the Companies Act, Cap 50 and the guidelines set out by SGX-ST.

The Board is of the view that a majority of the members of the Audit Committee have the requisite accounting and financial management expertise and experience to carry out their duties.

The Audit Committee has oversight of the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors of the Group. The Committee also considers the suitability of the auditors of its foreign incorporated associated company as the auditor is from a different accounting firm.

The Committee is empowered to investigate any matter relating to the Group's accounting, auditing, internal controls and/or financial practices brought to its attention. The Audit Committee has full discretion to invite any Director and executive officer to attend its meetings. The Audit Committee also has full access to records, resources and personnel, to enable it to discharge its functions properly.

In performing its functions, the Audit Committee meets with the internal and external auditors at least on an annual basis, without the presence of management, to review the overall scope of both internal and external audits, and the assistance to be given by management to the auditors.

The Audit Committee has also undertaken a review of all non-audit services provided by the external auditors, ensuring that they would not, in the Audit Committee's opinion, affect the independence of the auditors.

## Corporate Governance Report

As part of the yearly statutory audit on the financial statements, the external auditors also report to the Audit Committee and to the appropriate level of management any material weaknesses in the Group's system of internal controls and provide recommendations on other significant matters such as risk management which have come to their attention during the course of the audit.

During the financial year, the Audit Committee appointed RSM Robert Tan & Co. as the Group's internal auditor in place of Ernst & Young to ensure greater independence. The independent in-house internal audit division will continue to carry out internal audit work for overseas operations to further enhance the risk management of the Group. Both internal audit functions report directly to the Audit Committee.

The Audit Committee has reviewed and is satisfied that:

- the independence of the external auditor has not been compromised in relation to the non-audit services provided;
- the auditor of its foreign associated company is suitable pursuant to Rule 716 of the Listing Manual;
- the Group's material internal controls, including financial, operational and compliance controls and risk management are effective; and
- the internal audit function is adequately resourced, and has appropriate standing within the Company and the Group.

### BOARD COMMITTEES AND ATTENDANCE

| NAME OF DIRECTOR       | BOARD OF DIRECTORS   |          | REMUNERATION COMMITTEE |          | AUDIT COMMITTEE      |          |
|------------------------|----------------------|----------|------------------------|----------|----------------------|----------|
|                        | NO. OF MEETINGS HELD | ATTENDED | NO. OF MEETINGS HELD   | ATTENDED | NO. OF MEETINGS HELD | ATTENDED |
| Kuah Kok Kim           | 6                    | 6        | NA                     | NA       | 4                    | 4*       |
| Samuel Bernard Sassoon | 6                    | 6        | NA                     | NA       | 4                    | 4*       |
| Huang Yuan Chiang      | 6                    | 6        | 2                      | 2        | 4                    | 4        |
| Ian Wayne Spence       | 6                    | 6        | 2                      | 1        | 4                    | 4        |
| Ong Choo Eng           | 6                    | 6        | 2                      | 2        | 4                    | 4        |
| Phillip Eng Heng Nee   | 6                    | 3        | 2                      | 2        | 4                    | 1        |

\* Attendance by invitation

## Corporate Governance Report

### COMMUNICATION WITH SHAREHOLDERS

- Principle 10 : Accountability and Audit
- Principle 14 : Communication with Shareholders
- Principle 15 : Greater Shareholder Participation

The Company is in regular and effective communication with our shareholders. The Board strives for timeliness and transparency in its disclosures to shareholders and the public. The quarterly results are announced via SGX-ST and the Business Times well within the mandatory period. We have also adopted quarterly reporting on a voluntary basis. All price-sensitive information are disseminated via SGX-ST and such information is simultaneously posted on our corporate website at [www.mtq.com.sg](http://www.mtq.com.sg) and investor portal, [www.shareinvestor.com](http://www.shareinvestor.com).

Shareholders receive bi-annual newsletters which provide updates on corporate development and new initiatives undertaken by the Group and the Annual Report within the mandatory period. The Notice of Annual General Meeting is advertised in a newspaper in Singapore and is also made available on the SGX-ST's website. Shareholders are also given the opportunity to enquire from Directors, Chairpersons or members of the Board Committees, management and external auditors on any matter concerning the Company and the Group during the Company's annual general meetings of which separate resolutions are set for each distinct issue. The Articles allow a member of the Company to appoint a proxy or proxies to attend and vote instead of the member.

The Board is satisfied with the Group's commitment to comply with the Code of Corporate Governance, and on the adequacy of internal controls within the Group.

### DEALING IN SECURITIES

[SGX-ST Listing Rule 710(2)]

The Company has adopted the Code of Best Practices on Securities Transaction that is in line with the Best Practices Guide issued by the SGX-ST. This Code sets out the implication of insider dealings and guidance to officers on dealings in the Company's shares.

All Directors and officers of the Company who have access to the price-sensitive information are required to observe this Code and are required to confirm their compliance with the requirements of this Code quarterly.

## Additional Disclosure Requirements

For the financial year ended 31 March 2004

### **MATERIAL CONTRACTS**

(Listing Manual Rule 1207(8))

Except as disclosed in the financial statements, there are no material contracts of the Company and of the Group involving the interest of the Chief Executive Officer, each Director or controlling shareholders, either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

### **INTERESTED PARTY TRANSACTIONS**

(Listing Manual Rule 907)

The Group has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the Audit Committee and that the transactions are on an arms' length basis.

Excluding transactions less than \$100,000, there are no interested person transactions entered during the financial year under review or conducted under shareholders' mandate pursuant to Rule 920.

## Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of MTQ Corporation Limited (the "Company") and its subsidiary companies (the "Group") for the financial year ended 31 March 2004.

### DIRECTORS

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

Kuah Kok Kim (Chairman & CEO)  
 Philip Eng Heng Nee  
 Huang Yuan Chiang  
 Ong Choo Eng  
 Samuel Bernard Sassoon  
 Ian Wayne Spence

### ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Except as described in the subsequent paragraphs, neither at the end of the financial year, nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

### DIRECTORS' INTERESTS IN SHARES, SHARE OPTIONS AND DEBENTURES

According to the register required to be kept under Section 164 of the Companies Act, Cap. 50, the following Directors who held office at the end of the financial year had interests in the Company and its subsidiary companies as stated below:

|  | HOLDINGS REGISTERED<br>IN THE NAME OF DIRECTORS |                 |                 | HOLDINGS IN WHICH<br>DIRECTORS ARE DEEMED<br>TO HAVE INTERESTS |                 |                 |
|--|---|-----------------|-----------------|--|-----------------|-----------------|
|  | AT<br>1.4.2003                                  | AT<br>31.3.2004 | AT<br>21.4.2004 | AT<br>1.4.2003   | AT<br>31.3.2004 | AT<br>21.4.2004 |
| <b>The Company</b><br>(Ordinary shares of \$0.25 each)       |   |                 |                 |  |                 |                 |
| Kuah Kok Kim   | 30,000  | 134,000         | 134,000         | 18,570,000   | 18,734,000      | 18,734,000      |
| Samuel Bernard Sassoon                                       | 204,000   | 3,000           | 3,000           | 3,449,000  | 3,349,000       | 3,349,000       |
| (Options to subscribe for ordinary<br>shares of \$0.25 each) |   |                 |                 |  |                 |                 |
| Philip Eng Heng Nee  | 100,000   | 200,000         | 200,000         | —  | —               | —               |
| Ong Choo Eng   | 100,000   | 200,000         | 200,000         | —  | —               | —               |
| Huang Yuan Chiang  | —   | 120,000         | 120,000         | —  | —               | —               |
| Ian Wayne Spence   | —   | 120,000         | 120,000         | —  | —               | —               |
| Samuel Bernard Sassoon                                       | —   | 100,000         | 100,000         | —  | —               | —               |

## Directors' Report

### DIRECTORS' INTERESTS IN SHARES, SHARE OPTIONS AND DEBENTURES (cont'd)

|  | HOLDINGS REGISTERED<br>IN THE NAME OF DIRECTORS |           |           | HOLDINGS IN WHICH<br>DIRECTORS ARE DEEMED<br>TO HAVE INTERESTS |           |           |
|--|---|-----------|-----------|--|-----------|-----------|
|  | AT  | AT        | AT        | AT   | AT        | AT        |
|  | 1.4.2003  | 31.3.2004 | 21.4.2004 | 1.4.2003   | 31.3.2004 | 21.4.2004 |
| <b>Subsidiary company</b>                |   |           |           |  |           |           |
| <b>MTQ Subsea Technology<br/>Pte Ltd</b> |   |           |           |  |           |           |
| (Ordinary shares of \$1 each)            |   |           |           |  |           |           |
| Samuel Bernard Sassoon                   | 1,070,000                                       | 1,070,000 | 1,070,000 | –  | –         | –         |

Mr Kuah Kok Kim is deemed to have an interest in shares of the Company's subsidiary companies by virtue of his interest in more than 20% of the issued share capital of the Company as at the end of the financial year. Subsequent to the financial year end, Mr Kuah Kok Kim's interest in MTQ Corporation Limited has been reduced from 23.72% to 19.77% pursuant to the shares placement exercise completed by the Company on 13 April 2004.

Except as described above, there were no other changes in any of the abovementioned interests between the end of the financial year and 21 April 2004.

### OPTIONS TO ACQUIRE SHARES IN THE COMPANY

- (a) The Metalock Executives' Share Option Scheme (the "Previous Scheme") was approved by shareholders of the Company at an Extraordinary General Meeting held on 8 August 2000. The Previous Scheme was subsequently replaced by a new option scheme known as The MTQ Corporation Executives' Share Option Scheme 2003 (the "Scheme") upon approval granted by shareholders of the Company at an Extraordinary General Meeting held on 14 April 2003.

Unlike the Previous Scheme, the Scheme, inter alia, allows for the participation of executives who meet the eligibility criteria but who are also controlling shareholders. Although the Previous Scheme is replaced by the Scheme, any subsisting and outstanding share options granted under the Previous Scheme continues to be exercisable in accordance with the terms of the Previous Scheme.

The Previous Scheme and the Scheme are administered by the Remuneration Committee appointed by the Directors of the Company. The Remuneration Committee comprises the following members during the financial year and as at the date of this report:

Philip Eng Heng Nee (Chairman)  
Huang Yuan Chiang  
Ong Choo Eng  
Ian Wayne Spence

The selection of the participants in the Scheme and the grant of options are to be determined by the Remuneration Committee at its absolute discretion.

## Directors' Report

### OPTIONS TO ACQUIRE SHARES IN THE COMPANY (cont'd)

(b) The principal terms of the Scheme are:

**(i) Scheme Size and Duration**

The aggregate nominal amount of new shares over which the Remuneration Committee may grant options pursuant to the Scheme, when added to the nominal amount of new ordinary shares issued and issuable in respect of all options granted under the Scheme and the Previous Scheme, shall not exceed fifteen per cent (15%) ("Maximum Limit") of the issued share capital of the Company on the day preceding the date of grant.

The Scheme shall continue in existence at the discretion of the Remuneration Committee subject to a maximum period of ten years commencing from the date the Scheme is adopted by the Company in general meeting, provided always that the Scheme may be extended beyond the ten year period with the approval of the shareholders by ordinary resolution in general meeting and of any relevant authorities as may be required. The Company in general meeting, may always by ordinary resolution terminate the continuation of the Scheme at any time.

Termination of the Scheme shall not affect options which have been granted, whether such options have been exercised (whether fully or partially) or not.

**(ii) Eligibility to participate in the Scheme**

In respect of the Scheme, the following categories of individuals shall be eligible to participate:

- Directors and employees of the Company;
- directors and employees of subsidiary companies of the Company; and
- directors and employees of associated companies (a company as defined in the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") and over which the Company has control); and
- subject to the conditions in the following paragraphs, directors and employees of the Company and subsidiary companies of the Company who are controlling shareholders of the Company (as defined in the Listing Manual of the SGX-ST)

Employees refer to only confirmed non-bargainable employees who are at least twenty-one years of age.

In respect of any person who is a director or employee of the Company or a subsidiary company of the Company, and who is also a controlling shareholder of the Company,

- associates (as defined in the Listing Manual of the SGX-ST) of the controlling shareholders shall not be eligible to participate in the Scheme;
- the total number of new ordinary shares in respect of which options may be granted to such controlling shareholders shall not exceed twenty-five per cent (25%) of the Maximum Limit; and
- the total number of new ordinary shares in respect of which options may be granted to each of such controlling shareholders shall not exceed ten per cent (10%) of the Maximum Limit.

Controlling shareholders shall not participate in the Scheme unless their participation and the actual number of new ordinary shares and terms of any option to be granted to each of them have been approved by the independent shareholders in general meeting in separate resolutions.

## Directors' Report

### OPTIONS TO ACQUIRE SHARES IN THE COMPANY (cont'd)

#### (iii) Grant of Options

Options under the Scheme may be granted at any time during the period when the Scheme is in force, except that in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is made, options may be granted only on or after the second Market Day after the day on which such announcement is released. In addition, no options is granted during any other period specified by the Board to be a period in which officers of the Company must not deal in securities of the Company.

#### (iv) Exercise Period

Subject to the other rules of the Scheme, the option granted can be exercised by the option holder at any time during a period commencing on the first anniversary from the date of grant or such later date at the discretion of the Remuneration Committee, and expiring on the day immediately preceding:

- the tenth anniversary of the date of grant in the case of executive directors and employees of the Company or its subsidiaries; or
- the fifth anniversary of the date of grant in the case of all other participants.

An option granted with subscription price fixed at a discount to market price can only be exercised after the second anniversary of the date of grant.

#### (v) Subscription Price

The Subscription Price for each share comprised in an option that is exercisable, shall be equal to the average of the last dealt prices (rounded up to the nearest cent) of the Company shares on the SGX-ST for the three consecutive market days immediately preceding the date of grant ("Market Price") of such option, provided that at the absolute discretion of the Remuneration Committee, the subscription price may be fixed at the time of grant of options at no less than eighty per cent (80%) of the Market Price.

The subscription price shall in no event be less than the nominal value of a Company share.

- (c) Only one of the controlling shareholders, namely, Mr Kuah Kok Kim, has been approved to participate in the Scheme.
- (d) Under the Previous Scheme and the Scheme, share options granted, exercised and cancelled during the financial year and outstanding as at 31 March 2004 were as follows:

| DATE OF GRANT   | AS AT     | NO. OF OPTIONS |           |           | AS AT     | EXERCISE PRICE | EXPIRY DATE     |
|-----------------|-----------|----------------|-----------|-----------|-----------|----------------|-----------------|
|                 | 1.4.2003  | ADDITIONS      | EXERCISED | CANCELLED | 31.3.2004 |                |                 |
| 15 October 2000 | 200,000   | -              | -         | -         | 200,000   | \$0.30         | 15 October 2005 |
| 15 October 2000 | 1,155,000 | -              | 349,000   | 95,000    | 711,000   | \$0.30         | 15 October 2010 |
| 31 July 2003    | -         | 440,000        | -         | -         | 440,000   | \$0.43         | 30 July 2008    |
| 31 July 2003    | -         | 1,510,000      | -         | 15,000    | 1,495,000 | \$0.43         | 30 July 2013    |
|                 | 1,355,000 | 1,950,000      | 349,000   | 110,000   | 2,846,000 |                |                 |

## Directors' Report

### OPTIONS TO ACQUIRE SHARES IN THE COMPANY (cont'd)

- (e) The participants of the Previous Scheme and the Scheme who are Directors of the Company as at 31 March 2004 are disclosed in the following table:

| NAME OF PARTICIPANT    | OPTIONS GRANTED DURING FINANCIAL YEAR | AGGREGATE OPTIONS GRANTED SINCE COMMENCEMENT OF PREVIOUS SCHEME AND THE SCHEME TO END OF FINANCIAL YEAR | AGGREGATE OPTIONS EXERCISED SINCE COMMENCEMENT OF PREVIOUS SCHEME AND THE SCHEME TO END OF FINANCIAL YEAR | AGGREGATE OPTIONS OUTSTANDING SINCE COMMENCEMENT OF PREVIOUS SCHEME AND THE SCHEME TO END OF FINANCIAL YEAR |
|------------------------|---------------------------------------|---|---|---|
| Kuah Kok Kim           | –                                     | –   | –   | –   |
| Philip Eng Heng Nee    | 100,000                               | 200,000   | –   | 200,000   |
| Huang Yuan Chiang      | 120,000                               | 120,000   | –   | 120,000   |
| Ong Choo Eng           | 100,000                               | 200,000   | –   | 200,000   |
| Samuel Bernard Sassoon | 100,000                               | 100,000   | –   | 100,000   |
| Ian Wayne Spence       | 120,000                               | 120,000   | –   | 120,000   |

Note: The terms of the share options granted under the Previous Scheme and the Scheme to these participants (who are Directors of the Company) are the same as those granted to the employees of the Group as disclosed in (b) above.

- (f) No options have been granted to the controlling shareholder, and no eligible participant has received 5% or more of the total options available under the Previous Scheme and the Scheme.
- (g) No options were granted under the Scheme at a discount during the financial year.
- (h) Except for the above, no other options were granted by the Company during the financial year.
- (i) The holders of the share options have no right to participate by virtue of these options under the Previous Scheme and the Scheme in any share issue of any other company in the Group.

### OPTIONS TO ACQUIRE SHARES IN A SUBSIDIARY COMPANY

The particulars of options to acquire shares in a subsidiary company, MTQ Subsea Technology Pte Ltd, administered under the MTQ Subsea Technology Pte Ltd Share Option Scheme (the "Subsea Scheme") are as follows :

At the end of the financial year, outstanding options to subscribe for ordinary shares of \$1.00 each in MTQ Subsea Technology Pte Ltd were as follows :

## Directors' Report

### OPTIONS TO ACQUIRE SHARES IN A SUBSIDIARY COMPANY (cont'd)

| DATE OF GRANT | AS AT<br>1.4.2003 | NO. OF OPTIONS |           | AS AT<br>31.3.2004 | EXERCISE<br>PRICE | EXPIRY<br>DATE |
|---------------|-------------------|----------------|-----------|--------------------|-------------------|----------------|
|               |                   | EXERCISED      | CANCELLED |                    |                   |                |
| 21 June 2000  | 45,000            | –              | –         | 45,000             | \$1.00 - \$1.20   | 21 June 2010   |
| 1 July 2000   | 230,000           | 14,800         | –         | 215,200            | \$1.00 - \$1.20   | 1 July 2010    |
| 3 July 2000   | 225,000           | –              | 225,000   | –                  | \$1.00 - \$1.20   | 3 July 2010    |
| 10 July 2000  | 85,000            | 10,260         | –         | 74,740             | \$1.00 - \$1.20   | 10 July 2010   |
| 1 August 2000 | 90,000            | 11,320         | –         | 78,680             | \$1.00 - \$1.20   | 1 August 2010  |
|               | 675,000           | 36,380         | 225,000   | 413,620            |                   |                |

The exercise price of options granted under the Subsea Scheme is based on the par value of the share with an annual escalation clause.

No other options were granted by the subsidiary company during the financial year.

The holders of the share options have no right to participate by virtue of these options in any share issue of any other company in the Group.

### DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in the financial statements, since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by means of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

### AUDIT COMMITTEE

The Audit Committee comprises 4 members, of whom 3 are Independent Directors :

|                     |                                  |
|---------------------|----------------------------------|
| Ian Wayne Spence    | (Chairman, Independent Director) |
| Philip Eng Heng Nee | (Independent Director)           |
| Huang Yuan Chiang   | (Independent Director)           |
| Ong Choo Eng        |                                  |

## Directors' Report

### **AUDIT COMMITTEE** (cont'd)

The Audit Committee performs the functions required pursuant to Section 201B(5) of the Companies Act, Cap. 50 and the Code of Corporate Governance.

The Audit Committee has oversight of the scope and results of the external and internal audit and their cost effectiveness, and the independence and objectivity of the external auditors. In performing its functions, the Audit Committee meet with the internal and external auditors at least on an annual basis, without the presence of management, to review the overall scope of both internal and external audits, and the assistance given by the management to the auditors. The Audit Committee also reviews all non-audit services provided by the external auditors and their impact on independence and objectivity of the external auditors.

Areas of review by the Audit Committee also include :

- the effectiveness of the Group's system of accounting and internal controls, including financial, operational and compliance controls and risk management;
- the quarterly and full year announcements; and
- the financial statements of the Company and the consolidated financial statements of the Group for the financial year ended 31 March 2004 as the external auditors' report thereon.

The Committee recommends to the Board of Directors that the auditors, Ernst & Young, be nominated for re-appointment as external auditors at the forthcoming Annual General Meeting of the Company.

### **AUDITORS**

The auditors, Ernst & Young, Certified Public Accountants, have expressed their willingness to accept re-appointment.

On behalf of the Board,

Kuah Kok Kim  
Director

Huang Yuan Chiang  
Director

Singapore  
24 May 2004

## Statement by Directors

Pursuant to Section 201(15), Companies Act, Cap. 50

We, Kuah Kok Kim and Huang Yuan Chiang, being two of the Directors of MTQ Corporation Limited, do hereby state that, in the opinion of the Directors :

- (a) the accompanying balance sheets, profit and loss accounts, statements of changes in equity and consolidated statement of cash flows together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the results of the business, and changes in equity of the Company and of the Group and cash flows of the Group for the financial year then ended, and
- (b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board,

Kuah Kok Kim  
Director

Huang Yuan Chiang  
Director

Singapore  
24 May 2004

## Auditors' Report

To the Members of MTQ Corporation Limited

We have audited the accompanying financial statements of MTQ Corporation Limited (the "Company") and its subsidiary companies (the "Group") set out on pages 53 to 107 for the financial year ended 31 March 2004. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements and consolidated financial statements are properly drawn up in accordance with the provisions of the Companies Act (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004, the results, changes in equity of the Company and of the Group and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records (excluding registers) required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG  
Certified Public Accountants

Singapore  
24 May 2004

## Profit and Loss Accounts

For the financial year ended 31 March 2004

(In Singapore dollars)

| GROUP   | NOTE | CONTINUING OPERATIONS |                | DISCONTINUING OPERATIONS |                | TOTAL CONSOLIDATED |                |
|---|------|-----------------------|----------------|--------------------------|----------------|--------------------|----------------|
|   |      | 2004<br>\$'000        | 2003<br>\$'000 | 2004<br>\$'000           | 2003<br>\$'000 | 2004<br>\$'000     | 2003<br>\$'000 |
| <b>Revenue</b>  | 3    | <b>52,738</b>         | 46,432         | -                        | 1,598          | <b>52,738</b>      | 48,030         |
| <b>Other revenue</b>  | 4    | <b>450</b>            | 804            | -                        | 14             | <b>450</b>         | 818            |
|   |      | <b>53,188</b>         | 47,236         | -                        | 1,612          | <b>53,188</b>      | 48,848         |
| Cost of sales   |      | <b>(35,302)</b>       | (30,791)       | -                        | (883)          | <b>(35,302)</b>    | (31,674)       |
|   |      | <b>17,886</b>         | 16,445         | -                        | 729            | <b>17,886</b>      | 17,174         |
| Staff costs   |      | <b>(9,478)</b>        | (7,853)        | -                        | (171)          | <b>(9,478)</b>     | (8,024)        |
| Other operating expenses  |      | <b>(6,422)</b>        | (5,334)        | -                        | (757)          | <b>(6,422)</b>     | (6,091)        |
| <b>Profit/(loss) from operating activities</b>                              | 5    | <b>1,986</b>          | 3,258          | -                        | (199)          | <b>1,986</b>       | 3,059          |
| Finance costs   | 6    | <b>(1,149)</b>        | (633)          | -                        | -              | <b>(1,149)</b>     | (633)          |
| Gain on disposition   |      | -                     | -              | -                        | 3,484          | -                  | 3,484          |
| <b>Profit from operations before share of results of associated company</b> |      | <b>837</b>            | 2,625          | -                        | 3,285          | <b>837</b>         | 5,910          |
| Share of results of associated company                                      |      | <b>1,366</b>          | -              | -                        | -              | <b>1,366</b>       | -              |
| <b>Profit from operations before taxation</b>                               |      | <b>2,203</b>          | 2,625          | -                        | 3,285          | <b>2,203</b>       | 5,910          |
| Taxation  | 7    | <b>(876)</b>          | (722)          | -                        | (38)           | <b>(876)</b>       | (760)          |
| <b>Net profit from operations</b>   |      | <b>1,327</b>          | 1,903          | -                        | 3,247          | <b>1,327</b>       | 5,150          |
| Minority interests  |      | <b>378</b>            | 235            | -                        | -              | <b>378</b>         | 235            |
| <b>Net profit attributable to shareholders</b>                              |      | <b>1,705</b>          | 2,138          | -                        | 3,247          | <b>1,705</b>       | 5,385          |
| <b>Earnings per share</b>   |      |                       |                |                          |                |                    |                |
| - Basic   | 8    | <b>2.15 cts</b>       | 2.70 cts       |                          |                | <b>2.15 cts</b>    | 6.80 cts       |
| - Diluted   | 8    | <b>2.14 cts</b>       | 2.69 cts       |                          |                | <b>2.14 cts</b>    | 6.78 cts       |

The accounting policies and explanatory notes on pages 60 to 107 form an integral part of the financial statements.

## Profit and Loss Accounts

(In Singapore dollars)

For the financial year ended 31 March 2004

| COMPANY   | NOTE | CONTINUING OPERATIONS |         | DISCONTINUING OPERATIONS |        | TOTAL          |         |
|---|------|-----------------------|---------|--------------------------|--------|----------------|---------|
|   |      | 2004                  | 2003    | 2004                     | 2003   | 2004           | 2003    |
|   |      | \$'000                | \$'000  | \$'000                   | \$'000 | \$'000         | \$'000  |
| <b>Revenue</b>  | 3    | <b>2,552</b>          | 3,065   | -                        | -      | <b>2,552</b>   | 3,065   |
| <b>Other revenue</b>                                  | 4    | <b>318</b>            | 424     | -                        | -      | <b>318</b>     | 424     |
|   |      | <b>2,870</b>          | 3,489   | -                        | -      | <b>2,870</b>   | 3,489   |
| Staff costs   |      | <b>(1,343)</b>        | (1,743) | -                        | -      | <b>(1,343)</b> | (1,743) |
| Other operating expenses                              |      | <b>(3,511)</b>        | (3,721) | -                        | -      | <b>(3,511)</b> | (3,721) |
| <b>Loss from operating activities</b>                 | 5    | <b>(1,984)</b>        | (1,975) | -                        | -      | <b>(1,984)</b> | (1,975) |
| Finance costs   | 6    | <b>(4)</b>            | -       | -                        | -      | <b>(4)</b>     | -       |
| Gain on disposition                                   |      | -                     | -       | -                        | 1,118  | -              | 1,118   |
| <b>(Loss)/profit from operations before taxation</b>  |      | <b>(1,988)</b>        | (1,975) | -                        | 1,118  | <b>(1,988)</b> | (857)   |
| Taxation  | 7    | <b>76</b>             | 63      | -                        | -      | <b>76</b>      | 63      |
| <b>Net (loss)/profit attributable to shareholders</b> |      | <b>(1,912)</b>        | (1,912) | -                        | 1,118  | <b>(1,912)</b> | (794)   |

The accounting policies and explanatory notes on pages 60 to 107 form an integral part of the financial statements.

## Balance Sheets

As at 31 March 2004

(In Singapore dollars)

|  | NOTE | GROUP           |                 | COMPANY        |                |
|--|------|-----------------|-----------------|----------------|----------------|
|  |      | 2004<br>\$'000  | 2003<br>\$'000  | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>ASSETS LESS LIABILITIES</b>                 |      |                 |                 |                |                |
| <b>Non-current assets</b>                      |      |                 |                 |                |                |
| Goodwill                                       | 9    | 7,458           | 2,163           | -              | -              |
| Property, plant and equipment, net             | 10   | 25,298          | 24,238          | 1,882          | 2,307          |
| Subsidiary companies                           | 11   | -               | -               | 26,045         | 22,208         |
| Associated company                             | 12   | 7,234           | -               | -              | -              |
| Other investments                              | 13   | -               | 2,813           | -              | -              |
| Other receivables                              | 14   | 228             | 316             | 48             | 73             |
| Deferred tax assets                            | 20   | 356             | 297             | -              | -              |
|  |      | <b>40,574</b>   | <b>29,827</b>   | <b>27,975</b>  | <b>24,588</b>  |
| <b>Current assets</b>                          |      |                 |                 |                |                |
| Inventories and work-in-progress               | 15   | 7,666           | 5,668           | -              | -              |
| Receivables                                    | 16   | 11,181          | 14,192          | 415            | 370            |
| Tax recoverable                                |      | 729             | 303             | 721            | 303            |
| Fixed deposits                                 | 17   | 3,809           | 7,705           | 502            | 7,702          |
| Cash at bank and in hand                       | 17   | 2,446           | 2,980           | 209            | 435            |
|  |      | <b>25,831</b>   | <b>30,848</b>   | <b>1,847</b>   | <b>8,810</b>   |
| <b>Current liabilities</b>                     |      |                 |                 |                |                |
| Payables : amounts falling due within one year | 18   | 20,503          | 17,455          | 605            | 773            |
| Provision for tax                              |      | 606             | 470             | -              | -              |
|  |      | <b>(21,109)</b> | <b>(17,925)</b> | <b>(605)</b>   | <b>(773)</b>   |
| <b>Net current assets</b>                      |      | <b>4,722</b>    | <b>12,923</b>   | <b>1,242</b>   | <b>8,037</b>   |
| <b>Non-current liabilities</b>                 |      |                 |                 |                |                |
| Payables : amounts falling due after one year  | 19   | 11,869          | 10,121          | -              | -              |
| Deferred tax liabilities                       | 20   | 459             | 369             | 132            | 184            |
|  |      | <b>(12,328)</b> | <b>(10,490)</b> | <b>(132)</b>   | <b>(184)</b>   |
| <b>Net assets</b>                              |      | <b>32,968</b>   | <b>32,260</b>   | <b>29,085</b>  | <b>32,441</b>  |
| <b>EQUITY</b>                                  |      |                 |                 |                |                |
| Share capital                                  | 21   | 19,887          | 19,800          | 19,887         | 19,800         |
| Reserves                                       | 22   | 12,390          | 11,490          | 9,198          | 12,641         |
| <b>Shareholders' funds</b>                     |      | <b>32,277</b>   | <b>31,290</b>   | <b>29,085</b>  | <b>32,441</b>  |
| <b>Minority interests</b>                      |      | <b>691</b>      | <b>970</b>      | <b>-</b>       | <b>-</b>       |
|  |      | <b>32,968</b>   | <b>32,260</b>   | <b>29,085</b>  | <b>32,441</b>  |

The accounting policies and explanatory notes on pages 60 to 107 form an integral part of the financial statements.

## Statements of Changes in Equity

(In Singapore dollars)

For the financial year ended 31 March 2004

|   | SHARE<br>CAPITAL<br>\$'000 | SHARE<br>PREMIUM<br>\$'000 | FOREIGN<br>CURRENCY<br>TRANSLATION<br>RESERVE<br>\$'000 | RETAINED<br>EARNINGS<br>\$'000 | SHAREHOLDERS'<br>FUNDS<br>\$'000 |
|---|----------------------------|----------------------------|---|--------------------------------|----------------------------------|
| <b>GROUP</b>  |                            |                            |   |                                |                                  |
| Balance at 31 March 2002  | 19,800                     | 1,944                      | 568   | 5,622                          | 27,934                           |
| Exchange difference on translation of overseas subsidiary companies | –                          | –                          | 133   | –                              | 133                              |
| Net profit attributable to shareholders                             | –                          | –                          | –   | 5,385                          | 5,385                            |
| Dividends paid in respect of previous financial year, less tax      | –                          | –                          | –   | (1,544)                        | (1,544)                          |
| Dividends paid in respect of current financial year, less tax       | –                          | –                          | –   | (618)                          | (618)                            |
| Balance at 31 March 2003  | 19,800                     | 1,944                      | 701   | 8,845                          | 31,290                           |
| Exchange difference on translation of overseas subsidiary companies | –                          | –                          | 804   | –                              | 804                              |
| Issuance of ordinary shares pursuant to exercise of options         | 87                         | 18                         | –   | –                              | 105                              |
| Net profit attributable to shareholders                             | –                          | –                          | –   | 1,705                          | 1,705                            |
| Share of reserves movement in associated company                    | –                          | –                          | –   | (78)                           | (78)                             |
| Dividends paid in respect of previous financial year, less tax      | –                          | –                          | –   | (928)                          | (928)                            |
| Dividends paid in respect of current financial year, less tax       | –                          | –                          | –   | (621)                          | (621)                            |
| Balance at 31 March 2004  | 19,887                     | 1,962                      | 1,505   | 8,923                          | 32,277                           |

The accounting policies and explanatory notes on pages 60 to 107 form an integral part of the financial statements.

## Statements of Changes in Equity

For the financial year ended 31 March 2004

(In Singapore dollars)

|   | SHARE<br>CAPITAL<br>\$'000 | SHARE<br>PREMIUM<br>\$'000 | RETAINED<br>EARNINGS<br>\$'000 | SHAREHOLDERS'<br>FUNDS<br>\$'000 |
|---|----------------------------|----------------------------|--------------------------------|----------------------------------|
| <b>COMPANY</b>  |                            |                            |                                |                                  |
| Balance at 31 March 2002  | 19,800                     | 1,944                      | 13,653                         | 35,397                           |
| Net loss attributable to shareholders                             | –                          | –                          | (794)                          | (794)                            |
| Dividends paid in respect of<br>previous financial year, less tax | –                          | –                          | (1,544)                        | (1,544)                          |
| Dividends paid in respect of current<br>financial year, less tax  | –                          | –                          | (618)                          | (618)                            |
| Balance at 31 March 2003  | 19,800                     | 1,944                      | 10,697                         | 32,441                           |
| Issuance of ordinary shares pursuant<br>to exercise of options    | 87                         | 18                         | –                              | 105                              |
| Net loss attributable to shareholders                             | –                          | –                          | (1,912)                        | (1,912)                          |
| Dividends paid in respect of<br>previous financial year, less tax | –                          | –                          | (928)                          | (928)                            |
| Dividends paid in respect of current<br>financial year, less tax  | –                          | –                          | (621)                          | (621)                            |
| Balance at 31 March 2004  | 19,887                     | 1,962                      | 7,236                          | 29,085                           |

The accounting policies and explanatory notes on pages 60 to 107 form an integral part of the financial statements.

## Consolidated Statement of Cash Flows

(In Singapore dollars)

For the financial year ended 31 March 2004

|  | 2004<br>\$'000  | 2003<br>\$'000 |
|--|-----------------|----------------|
| <b>Cash flows from operating activities :</b>                            |                 |                |
| Profit from operations before taxation                                   | 2,203           | 5,910          |
| Add/(less) :   |                 |                |
| Amortisation of goodwill on business acquisition                         | 243             | 69             |
| Depreciation of property, plant and equipment                            | 3,824           | 2,860          |
| Goodwill written off   | 81              | 6              |
| Loss/(profit) on sale of property, plant and equipment                   | 6               | (16)           |
| Investment and interest income   | (60)            | (119)          |
| Interest expense   | 1,149           | 633            |
| Dilution of minority interests in subsidiary company, net                | (18)            | -              |
| Restructuring costs  | 332             | -              |
| Share of results of associated company                                   | (1,366)         | -              |
| Provision for diminution in value of unquoted investment                 | -               | 685            |
| Gain on disposition of discontinuing operations (Note 30)                | -               | (3,484)        |
| <b>Operating income before reinvestment in working capital</b>           | <b>6,394</b>    | <b>6,544</b>   |
| Decrease/(increase) in receivables                                       | 3,006           | (2,006)        |
| (Increase)/decrease in inventories and work-in-progress                  | (451)           | 450            |
| (Decrease)/increase in payables  | (320)           | 263            |
| Currency realignment   | (890)           | (388)          |
| <b>Cash generated from operations</b>                                    | <b>7,739</b>    | <b>4,863</b>   |
| Investment and interest income received                                  | 60              | 119            |
| Interest expense paid  | (1,133)         | (633)          |
| Income taxes paid  | (1,236)         | (683)          |
| <b>Net cash provided by operating activities</b>                         | <b>5,430</b>    | <b>3,666</b>   |
| <b>Cash flows from investing activities :</b>                            |                 |                |
| Purchase of property, plant and equipment                                | (2,073)         | (9,727)        |
| Proceeds from sale of property, plant and equipment                      | 205             | 542            |
| Investment in new businesses #   | (7,411)         | (3,471)        |
| Acquisition of additional shares in associated company                   | (2,493)         | -              |
| Subscription for shares in a subsidiary company by minority shareholders | 43              | 300            |
| Loans repaid by/(to) staff, net  | 93              | (46)           |
| Dividends received from associated company                               | 160             | -              |
| Purchase of quoted investments   | -               | (2,813)        |
| Proceeds from disposition of discontinuing operations (Note 30)          | -               | 7,798          |
| <b>Net cash used in investing activities</b>                             | <b>(11,476)</b> | <b>(7,417)</b> |

## Consolidated Statement of Cash Flows

For the financial year ended 31 March 2004

(In Singapore dollars)

|   | 2004<br>\$'000 | 2003<br>\$'000 |
|---|----------------|----------------|
| <b>Cash flows from financing activities :</b>                       |                |                |
| Dividends paid  | (1,549)        | (2,162)        |
| Proceeds from bank overdrafts, secured                              | 941            | 600            |
| Proceeds from bank loans, secured                                   | 3,801          | 12,896         |
| Repayment of bank loans, secured                                    | (2,393)        | (4,680)        |
| Repayment of finance leases   | (79)           | (99)           |
| Loan from minority shareholder of a subsidiary company, net         | 540            | –              |
| Proceeds from issuance of new shares                                | 105            | –              |
| <b>Net cash provided by financing activities</b>                    | <b>1,366</b>   | <b>6,555</b>   |
| Net change in cash and cash equivalents                             | (4,680)        | 2,804          |
| Cash and cash equivalents at beginning of financial year (Note 17)  | 10,685         | 7,881          |
| <b>Cash and cash equivalents at end of financial year (Note 17)</b> | <b>6,005</b>   | <b>10,685</b>  |

### # Investment in new businesses

The fair value of the assets acquired and liabilities assumed arising from the investment in businesses and the cash flow effect thereof were as follows :-

|  | \$'000 |
|--|--------|
| Property, plant and equipment              | 1,239  |
| Inventories                                | 1,547  |
| Accruals for staff related costs           | (247)  |
|  | 2,539  |
| Goodwill arising from business acquisition | 4,872  |
| Consideration paid in cash                 | 7,411  |

The accounting policies and explanatory notes on pages 60 to 107 form an integral part of the financial statements.

## Notes to the Financial Statements

(In Singapore dollars)

31 March 2004

### 1. CORPORATE INFORMATION

MTQ Corporation Limited is a public limited liability company which is incorporated in Singapore.

The registered office of the Company is located at 182 Pandan Loop, Singapore 128373.

The principal activities of the Company are those of an investment holding and management company.

The principal activities of the Group are those relating to oilfield engineering; sales and servicing of turbochargers and fuel injection parts; and the designing, manufacturing and operation of remotely operated vehicles.

On 24 October 2003, the Company's wholly-owned subsidiary company, MTQ Engine Systems (Aust) Pty Ltd ("MTQES") completed its acquisition of the sales and servicing of fuel injection parts business from Adelaide Fuel Injection Service Pty Ltd, Adelaide Fuel Injection Parts Pty Ltd and Rund Pty Ltd ("AFI group") as an on-going concern, together with its business assets, in furtherance of its existing fuel injection business.

There have been no other significant changes in the nature of these activities during the financial year.

The Company and the Group employed 16 and 247 (2003 : 16 and 229) employees as at 31 March 2004, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) *Basis of preparation*

The financial statements of the Company and of the Group have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Companies Act. In previous financial years, the financial statements were prepared in accordance with Singapore Statements of Accounting Standard ("SAS"). The transition from SAS to FRS did not result in any significant change in accounting policies.

The accounting policies have been consistently applied by the Company and Group and are consistent with those used in the previous financial year.

The financial statements of the Company and of the Group have been prepared under the historical cost convention.

The financial statements are presented in Singapore Dollars (\$).

#### (b) *Basis of consolidation*

The financial statements of the Group incorporate the financial statements of the Company and all its subsidiary companies made up to 31 March. All intra-group balances and transactions are eliminated on consolidation.

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

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

#### (b) **Basis of consolidation** (cont'd)

The results of subsidiary companies are included in the financial statements of the Group from the date they become subsidiary companies. Acquisition of subsidiary companies are accounted for using the purchase method of accounting.

The financial statements of subsidiary companies are prepared for the same reporting period as the parent company using consistent accounting policies. Adjustments are made to conform any dissimilar material accounting policies that may exist.

#### (c) **Intangible assets**

##### (i) *Goodwill on consolidation*

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary company or an associated company at the date of acquisition. Goodwill is amortised using the straight-line method over the period that benefits are expected to be received, up to a maximum of 20 years. Goodwill which is assessed as having no continuing economic value is written off immediately to the profit and loss account. Goodwill is stated at cost less accumulated amortisation and any impairment losses.

##### (ii) *Goodwill on business acquisition*

Goodwill on business acquisition represents the excess of the cost of the acquisition over the fair values of the identifiable net assets of the business acquired. Goodwill is amortised using the straight-line method over the period that benefits are expected to be received, up to a maximum of 20 years. Goodwill which is assessed as having no continuing economic value is written off immediately to the profit and loss account. Goodwill is stated at cost less accumulated amortisation and any impairment losses.

##### (iii) *Negative goodwill*

Negative goodwill arising on acquisition represents the excess of the fair value of the identifiable net assets acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over 3 years, the weighted average useful life of those assets that are depreciable or amortisable. Negative goodwill in excess of fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account.

Negative goodwill is presented in the same balance sheet classification as goodwill. With respect to associated companies, negative goodwill is included in the carrying value of the investment.

## Notes to the Financial Statements

(In Singapore dollars)

31 March 2004

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

#### (d) *Subsidiary companies*

A subsidiary company is a company in which the Group, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

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

#### (e) *Associated company*

An associated company is defined as a company, not being a subsidiary, in which the Group has a long-term interest of not less than 20% of the equity and in whose financial and operating policy decisions the Group exercises significant influence.

The Group's investment in associated company is accounted for under the equity method. Investment in associated company is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of associated company, less any dividend income received and impairment loss. The Group's investments in associated company include negative goodwill which is treated in accordance with the accounting policy for goodwill stated in (c).

The most recent available audited financial statements of the associated company are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not co-terminous with those of the Group, the share of results is arrived at from the last audited financial statements available and unaudited financial statements.

When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment.

Intercompany transactions, including intercompany profits and unrealised profits and losses are eliminated. Unrealised gains arising from transactions with associated company are eliminated to the extent of the Group's interest in the associated company. Unrealised losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

The Group's share of the results of the associated company is included in the consolidated profit and loss account. Investments in associated company is stated at cost less any impairment loss in the Company's balance sheet.

Details of the associated companies are set out in Note 26 to the financial statements.

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

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

#### (f) **Revenue recognition**

Revenue from repair services is recognised upon completion of the services.

Revenue from trading sales is recognised upon passage of title to the customer which generally coincides with their delivery and acceptance.

Revenue from subsea services is recognised in the period in which the services are provided.

Management fees are recognised on an accrual basis upon which corporate services are rendered and billed.

Interest income is recognised on time proportion basis.

#### (g) **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure for additions, improvements and renewals is capitalised and expenditure for maintenance and repairs is charged to the profit and loss account.

When assets are sold or retired, their costs and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

The carrying amounts of the property, plant and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and if carrying values exceed this recoverable amount, the assets are written down.

#### (h) **Leases**

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 and disclosed as leased property, plant and equipment. 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 against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or 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 profit and loss account on a straight-line basis over the lease term.

## Notes to the Financial Statements

(In Singapore dollars)

31 March 2004

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

#### (i) Other investments

Other investments held on a long term basis are stated at cost less provision for diminution in value.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated and provision for diminution in value is made.

Dividend income is accrued on the basis of the dates dividends are declared by the investee company.

#### (i) Depreciation

Depreciation, except for freehold building and certain furniture and fixtures, and workshop equipment of an Australian subsidiary company which are depreciated on the reducing balance basis, is calculated on a straight-line method to write off the cost of the property, plant and equipment over their estimated useful lives. No depreciation is provided on freehold land and assets under construction. The estimated useful lives of property, plant and equipment are as follows :

##### *Straight-line basis*

|                                |   |   |
|--------------------------------|---|---|
| Leasehold land and buildings   | - | 50 years or the remaining term of the lease, whichever is lower |
| Workshop and subseas equipment | - | 4 to 10 years   |
| Furniture and fixtures         | - | 5 to 10 years   |
| Motor vehicles                 | - | 4 to 5 years  |
| Office equipment               | - | 3 to 5 years  |

##### *Reducing balance basis*

|                        |   |               |
|------------------------|---|---------------|
| Freehold building      | - | 20 years      |
| Furniture and fixtures | - | 1 to 5 years  |
| Workshop equipment     | - | 2 to 40 years |
| Office equipment       | - | 2 to 40 years |

The useful life and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Assets under construction are stated at cost. Expenditure relating to assets under construction are capitalised when incurred. Depreciation will commence when the development is completed.

#### (k) Inventories and work-in-progress

Inventories are stated at the lower of cost, and net realisable value. Cost includes all costs in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less anticipated cost of disposal and after making allowance for damaged, obsolete and slow-moving items.

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

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

#### (k) **Inventories and work-in-progress** (cont'd)

Costs of inventories are determined using the first-in-first-out method except for those relating to fuel injection parts and turbochargers, where costs are determined on a weighted average basis.

Finished goods and work-in-progress include the cost of raw materials, direct labour and attributable production overheads. An expected loss on the contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

#### (l) **Trade and other receivables**

Trade receivables, which generally have 30-day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at cost less an allowance for any uncollectible amounts.

#### (m) **Trade and other payables**

Liabilities for trade and other payables which are normally settled on 60-day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to related parties are carried at cost.

#### (n) **Provisions**

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

A provision for warranty is recognised for all products under warranty at the balance sheet date based on past experience on the level of repairs and returns.

#### (o) **Loans and borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received and including acquisition charges associated with the loans and borrowings.

## Notes to the Financial Statements

(In Singapore dollars)

31 March 2004

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

#### (p) **Deferred taxation**

Deferred income tax is provided, using the liability method, on all 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 taxable temporary differences.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary companies, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised. For deductible temporary differences associated with investments in subsidiary companies, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future.

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 assets to be utilised.

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

#### (q) **Employee benefits**

As required by law, the Group's companies in Singapore make contributions to the state pension scheme, the Central Provident Fund ("CPF"). Certain of the Group's companies outside Singapore make contributions to their respective countries' pension scheme. Such contributions are recognised as compensation expenses charged against the profit and loss account in the same period as the employment that gives rise to the contributions.

##### *Equity compensation plan*

The Group has in place the MTQ Corporation Executives' Share Option Scheme 2003 (the "Scheme") which replaces the Metalock Executives' Share Option Scheme ("Previous Scheme"), and the MTQ Subsea Technology Pte Ltd Share Option Scheme ("Subsea Scheme") for granting of share options to Directors and executives.

The exercise price of options granted under the Previous Scheme and the Scheme approximate the market value of the share at the dates of grant. The exercise price of options granted under the Subsea Scheme is based on the par value of the share with an annual escalation clause.

There have been no charges to the profit and loss account upon the grant or exercise of the options.

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

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

#### (r) **Foreign currencies**

Transactions arising in foreign currencies during the financial year are converted at rates closely approximating those ruling on the transaction dates. Foreign monetary currency assets and liabilities are converted into local currency at exchange rates ruling at the balance sheet date. All exchange differences arising from conversion are included in the profit and loss account.

For inclusion in the consolidated financial statements, all assets and liabilities of foreign subsidiary companies are translated into Singapore dollars at the exchange rates ruling at the balance sheet date. Revenues and expenses are translated at average exchange rates for the financial year. Exchange differences due to such currency translations are included in the Group's foreign currency translation reserve.

#### (s) **Impairment**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the profit and loss account or treated as a revaluation decrease for assets carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

#### (t) **Borrowing costs**

Borrowing costs are recognised as expenses in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

#### (u) **Government grants**

Grants from government are recognised at their fair values where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in the profit and loss account over the periods necessary to match them on a systematic basis to the costs, which it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

## Notes to the Financial Statements

(In Singapore dollars)

31 March 2004

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

#### (v) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and fixed deposits less unsecured bank overdrafts which form an integral part of the Group's cash management.

#### (w) Discontinuing operations

A discontinuing operation is a clearly distinguishable component of the Company's or the Group's business that is or will be abandoned or terminated pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

### 3. REVENUE

Revenue represents services and trading sales after allowance for goods returned and trade discounts. It excludes dividends, interest income and, in respect of the Group, intra-group transactions.

Revenue for the Company represents rental and management fees invoiced for the use of its premise and corporate services rendered to its subsidiary companies.

### 4. OTHER REVENUE

|   | GROUP          |                | COMPANY        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Rental income   | <b>280</b>     | 286            | <b>280</b>     | 286            |
| Interest income   | <b>60</b>      | 73             | <b>31</b>      | 49             |
| Gross dividend income from quoted<br>equity investments | -              | 46             | -              | -              |
| Government grant  | -              | 262            | -              | -              |
| Other income  | <b>110</b>     | 151            | <b>7</b>       | 89             |
|   | <b>450</b>     | 818            | <b>318</b>     | 424            |

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

|  | GROUP          |                | COMPANY        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Profit/(loss) from operating activities is stated after charging/(crediting) : |                |                |                |                |
| <b>(a) Manpower costs</b>  |                |                |                |                |
| Salaries and wages   | 11,965         | 11,519         | 1,192          | 1,499          |
| CPF and contributions to other plans   | 1,311          | 1,113          | 88             | 131            |
| Others   | 2,174          | 1,892          | 63             | 113            |
|  | <b>15,450</b>  | 14,524         | <b>1,343</b>   | 1,743          |
| Less : Staff costs capitalised under assets under construction                 | (514)          | (986)          | -              | -              |
|  | <b>14,936</b>  | 13,538         | <b>1,343</b>   | 1,743          |

Manpower costs of the Company and the Group amounting to \$nil and \$5,458,000 (2003 : \$nil and \$5,514,000) respectively have been included in cost of sales.

|   | GROUP          |                | COMPANY        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>(b) Exceptional items, net</b>   |                |                |                |                |
| Restructuring costs   | 332            | -              | -              | -              |
| Provision for diminution in value of unquoted investment                      | -              | 685            | -              | 685            |
| Plant and equipment written off due to loss of an asset                       | -              | 2,007          | -              | -              |
| Insurance claim in relation to an asset written off                           | -              | (2,007)        | -              | -              |
| Provision for impairment in value of investments in subsidiary companies, net | -              | -              | 1,506          | 1,061          |
|   | <b>332</b>     | 685            | <b>1,506</b>   | 1,746          |

## Notes to the Financial Statements

(In Singapore dollars)

31 March 2004

### 5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (cont'd)

|  | GROUP          |                | COMPANY        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>(c) Other expenses</b>  |                |                |                |                |
| Amortisation of goodwill on business acquisition   | 243            | 69             | -              | -              |
| Auditors' remuneration :   |                |                |                |                |
| - Auditors of the Company  |                |                |                |                |
| • Current year   | 122            | 103            | 56             | 40             |
| • Under/(over) provision in respect of prior year  | 18             | (4)            | 8              | -              |
| - Other auditors   |                |                |                |                |
| • Current year   | 92             | 55             | -              | -              |
| • Under provision in respect of prior year   | 1              | 7              | -              | -              |
| Non-audit fees paid to   |                |                |                |                |
| - Auditors of the Company  | 78             | 127            | 29             | 85             |
| - Other auditors   | 107            | 36             | -              | -              |
| Depreciation of property, plant and equipment  | 3,824          | 2,860          | 476            | 481            |
| Directors' remuneration :  |                |                |                |                |
| - Directors of the Company   |                |                |                |                |
| • Directors' fees  | 135            | 115            | 135            | 115            |
| • Other remuneration   | 430            | 802            | 430            | 802            |
| • CPF and contributions to other plans   | (5)            | 27             | (5)            | 27             |
| - Directors of subsidiary companies  |                |                |                |                |
| • Remuneration and other benefits  | 1,338          | 1,222          | -              | -              |
| • CPF and contributions to other plans   | 139            | 124            | -              | -              |
| Fees paid to a firm in which a Director of a subsidiary company has interests (Note 24(i)) | 581            | 479            | -              | -              |
| (Gain)/loss on exchange, net   | (1,600)        | (691)          | 11             | 32             |
| Goodwill written off   | 81             | 6              | -              | -              |
| Inventories written off  | 229            | 104            | -              | -              |
| Loss/(profit) on sale of property, plant and equipment, net                                | 6              | (16)           | (3)            | (91)           |
| Bad debts written off  | 79             | 15             | -              | -              |
| Provision for amounts owing by subsidiary companies  | -              | -              | 61             | 85             |
| Provision for/(write back of) doubtful debts, net:   |                |                |                |                |
| - Specific   | (59)           | 57             | -              | -              |
| - General  | 111            | (38)           | -              | -              |

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (cont'd)

Depreciation of property, plant and equipment for the Group amounting to \$2,879,000 (2003 : \$2,022,000) has been included in cost of sales.

Directors' remuneration of the Company pursuant to the SGX-ST Listing rules is as follows:

#### Number of Directors in remuneration bands

|                        | COMPANY        |                |
|------------------------|----------------|----------------|
|                        | 2004<br>\$'000 | 2003<br>\$'000 |
| \$500,000 and above    | –              | 1              |
| \$250,000 to \$499,999 | 1              | –              |
| Below \$250,000        | 5              | 5              |
| Total                  | 6              | 6              |

### 6. FINANCE COSTS

|   | GROUP          |                | COMPANY        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Interest on bank loans and overdrafts   | 1,126          | 619            | 4              | –              |
| Interest on finance leases  | 7              | 13             | –              | –              |
| Interest on loan from a minority<br>shareholder of a subsidiary company (Note 18) | 16             | 1              | –              | –              |
|   | 1,149          | 633            | 4              | –              |

## Notes to the Financial Statements

(In Singapore dollars)

31 March 2004

### 7. TAXATION

|   | GROUP          |                | COMPANY        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| <i>Current taxation</i>                 |                |                |                |                |
| Provision for the year                  | <b>968</b>     | 1,158          | –              | 485            |
| Overprovision in respect of prior years | <b>(83)</b>    | –              | <b>(24)</b>    | (7)            |
|   | <b>885</b>     | 1,158          | <b>(24)</b>    | 478            |
| <i>Deferred taxation</i>                |                |                |                |                |
| Movements in temporary differences      | <b>178</b>     | (103)          | <b>(27)</b>    | (246)          |
| Reduction in tax rate                   | <b>(17)</b>    | (62)           | <b>(16)</b>    | (62)           |
| Overprovision in respect of prior years | <b>(63)</b>    | (233)          | <b>(9)</b>     | (233)          |
|   | <b>98</b>      | (398)          | <b>(52)</b>    | (541)          |
| Share of taxation of associated company | <b>(107)</b>   | –              | –              | –              |
|   | <b>876</b>     | 760            | <b>(76)</b>    | (63)           |

A reconciliation of the statutory tax rate to the Company's and the Group's effective tax rate applicable to profit/(loss) from operations before taxation is as follows :

|  | GROUP          |                | COMPANY        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Profit/(loss) from operations before taxation                          | <b>2,203</b>   | 5,910          | <b>(1,988)</b> | (857)          |
| Less : Share of results of associated company                          | <b>(1,366)</b> | –              | –              | –              |
|  | <b>837</b>     | 5,910          | <b>(1,988)</b> | (857)          |
| Tax at Singapore statutory tax rate<br>of 20% (2003 : 22%)             | <b>167</b>     | 1,300          | <b>(398)</b>   | (189)          |
| Tax effect of expenses not deductible<br>for tax purposes              | <b>327</b>     | 355            | <b>371</b>     | 447            |
| Tax effect of income not subject to tax                                | <b>(95)</b>    | (500)          | –              | (19)           |
| Deferred tax assets not recognised                                     | <b>411</b>     | 224            | –              | –              |
| Utilisation of carried forward tax<br>losses previously not recognised | –              | (531)          | –              | –              |
| Effect of difference in effective<br>tax rates of other countries      | <b>345</b>     | 150            | –              | –              |
| Overprovision of tax in respect of prior years                         | <b>(146)</b>   | (233)          | <b>(33)</b>    | (240)          |
| Effect of change in statutory tax rate                                 | <b>(17)</b>    | (62)           | <b>(16)</b>    | (62)           |
| Others   | <b>(9)</b>     | 57             | –              | –              |
|  | <b>983</b>     | 760            | <b>(76)</b>    | (63)           |
| Add : Share of taxation of associated company                          | <b>(107)</b>   | –              | –              | –              |
|  | <b>876</b>     | 760            | <b>(76)</b>    | (63)           |

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 7. TAXATION (cont'd)

The statutory income tax rate applicable to the Company was reduced to 20% for Year of Assessment 2005 from 22% for Year of Assessment 2004.

As at 31 March 2004, certain subsidiary companies had unutilised tax losses of approximately \$6,347,000 (2003 : \$5,523,000) and unabsorbed capital allowances of approximately \$2,341,000 (2003 : \$2,344,000) available for setoff against future taxable income, subject to agreement with the relevant authorities.

The potential tax benefit of approximately \$1,968,000 (2003 : \$1,627,000) from such unutilised tax losses, unabsorbed capital allowances and other temporary differences has not been recognised in the financial statements due to the uncertainty of its recoverability.

There are no income tax consequences attaching to the payment of dividends by the Company to the shareholders of the Company.

### 8. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the financial year.

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

The following reflects the income and share data used in the basic and diluted earnings per share computations for the financial years ended 31 March :

|  | GROUP            |                |
|--|------------------|----------------|
|  | 2004<br>\$'000   | 2003<br>\$'000 |
| Net profit attributable to shareholders  |                  |                |
| - continuing operations  | <b>1,705</b>     | 2,138          |
| - total consolidated   | <b>1,705</b>     | 5,385          |
|  |                  |                |
|  | NUMBER OF SHARES |                |
|  | '000             | '000           |
| Weighted average number of ordinary shares in issue applicable to basic earnings per share   | <b>79,431</b>    | 79,200         |
| Effect of dilutive securities:   |                  |                |
| Share options  | <b>298</b>       | 177            |
| Adjusted weighted average number of ordinary shares applicable to diluted earnings per share | <b>79,729</b>    | 79,377         |

## Notes to the Financial Statements

(In Singapore dollars)

31 March 2004

### 8. EARNINGS PER SHARE (cont'd)

|  | CENTS       | CENTS |
|--|-------------|-------|
| Earnings per share - continuing operations |             |       |
| - Basic                                    | <b>2.15</b> | 2.70  |
| - Diluted                                  | <b>2.14</b> | 2.69  |
| Earnings per share - total consolidated    |             |       |
| - Basic                                    | <b>2.15</b> | 6.80  |
| - Diluted                                  | <b>2.14</b> | 6.78  |

Since the end of the financial year, 25,000 ordinary shares in the Company were issued pursuant to the exercise of options. There have been no other transactions involving ordinary shares since the end of the financial year, except as disclosed in Note 31 to the financial statements.

### 9. GOODWILL

|  | GROUP<br>\$'000 |
|--|-----------------|
| Cost :   |                 |
| At 1 April 2003  | 2,232           |
| Acquisition of businesses                                      | 4,872           |
| Acquisition of additional interests<br>in a subsidiary company | 73              |
| Currency realignment   | 687             |
| Goodwill written off   | (81)            |
| At 31 March 2004   | <b>7,783</b>    |
| Accumulated amortisation :                                     |                 |
| At 1 April 2003  | 69              |
| Amortisation   | 243             |
| Currency realignment   | 13              |
| At 31 March 2004   | <b>325</b>      |
| Net book value :   |                 |
| At 31 March 2004   | <b>7,458</b>    |
| At 31 March 2003   | 2,163           |

The amortisation charge is recognised as part of other operating expenses.

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 10. PROPERTY, PLANT AND EQUIPMENT, NET

| GROUP  | FREEHOLD | FREEHOLD  | LEASEHOLD | WORKSHOP    | FURNITURE | ASSETS UNDER | TOTAL  |
|--|----------|-----------|-----------|-------------|-----------|--------------|--------|
|  | LAND     | BUILDINGS | LAND AND  | AND SUBSEAS | AND MOTOR | CONSTRUCTION |        |
|  | \$'000   | \$'000    | BUILDINGS | EQUIPMENT   | EQUIPMENT | VEHICLES     | \$'000 |
|  |          |           | \$'000    | \$'000      | \$'000    | \$'000       | \$'000 |
| Cost   |          |           |           |             |           |              |        |
| At 1 April 2003                              | 261      | 336       | 6,804     | 35,118      | 4,475     | 359          | 47,353 |
| Currency realignment                         | 55       | 70        | (32)      | 1,640       | 397       | –            | 2,130  |
| Additions                                    | –        | –         | 9         | 759         | 922       | 383          | 2,073  |
| Acquisition through<br>business combinations | –        | –         | –         | 912         | 327       | –            | 1,239  |
| Disposals/written off                        | –        | –         | –         | (358)       | (392)     | –            | (750)  |
| Transfers                                    | –        | –         | –         | 287         | –         | (287)        | –      |
| At 31 March 2004                             | 316      | 406       | 6,781     | 38,358      | 5,729     | 455          | 52,045 |
| Accumulated depreciation                     |          |           |           |             |           |              |        |
| At 1 April 2003                              | –        | 56        | 4,328     | 16,189      | 2,542     | –            | 23,115 |
| Currency realignment                         | –        | 11        | (8)       | 216         | 128       | –            | 347    |
| Depreciation                                 | –        | 20        | 300       | 2,862       | 642       | –            | 3,824  |
| Disposals/written off                        | –        | –         | –         | (273)       | (266)     | –            | (539)  |
| At 31 March 2004                             | –        | 87        | 4,620     | 18,994      | 3,046     | –            | 26,747 |
| Depreciation for 2003                        | –        | 20        | 301       | 1,999       | 540       | –            | 2,860  |
| Net book value                               |          |           |           |             |           |              |        |
| At 31 March 2004                             | 316      | 319       | 2,161     | 19,364      | 2,683     | 455          | 25,298 |
| At 31 March 2003                             | 261      | 280       | 2,476     | 18,929      | 1,933     | 359          | 24,238 |

The above property, plant and equipment include plant and equipment located in Shanghai with net book value of \$22,000 (2003 : \$26,000).

As at the end of the financial year, the net book value of property, plant and equipment under finance leases amounted to \$114,000 (2003 : \$170,000).

As at the end of the financial year, the net book value of property, plant and equipment depreciated on the reducing balance basis amounted to \$3,493,000 (2003 : \$1,755,000).

## Notes to the Financial Statements

(In Singapore dollars)

31 March 2004

### 10. PROPERTY, PLANT AND EQUIPMENT, NET (cont'd)

| COMPANY                         | LEASEHOLD<br>LAND AND<br>BUILDINGS<br>\$'000 | WORKSHOP<br>EQUIPMENT<br>\$'000 | FURNITURE AND<br>FIXTURES, OFFICE<br>EQUIPMENT AND<br>MOTOR VEHICLES<br>\$'000 | TOTAL<br>\$'000 |
|---------------------------------|--|---------------------------------|--|-----------------|
| <b>Cost</b>                     |  |                                 |  |                 |
| At 1 April 2003                 | 5,995  | 1,323                           | 2,031  | 9,349           |
| Additions                       | 9  | 4                               | 38   | 51              |
| Disposals/written off           | –  | (267)                           | (98)   | (365)           |
| At 31 March 2004                | 6,004  | 1,060                           | 1,971  | 9,035           |
| <b>Accumulated depreciation</b> |  |                                 |  |                 |
| At 1 April 2003                 | 4,156  | 1,297                           | 1,589  | 7,042           |
| Depreciation                    | 284  | 8                               | 184  | 476             |
| Disposals/written off           | –  | (267)                           | (98)   | (365)           |
| At 31 March 2004                | 4,440  | 1,038                           | 1,675  | 7,153           |
| Depreciation for 2003           | 285  | 8                               | 188  | 481             |
| <b>Net book value</b>           |  |                                 |  |                 |
| At 31 March 2004                | 1,564  | 22                              | 296  | 1,882           |
| At 31 March 2003                | 1,839  | 26                              | 442  | 2,307           |

The Group's freehold and leasehold land and buildings are located at :

| LOCATION  | DESCRIPTION                     | AREA<br>sq. m. | TENURE                           | 2004<br>NET BOOK VALUE<br>\$'000 |
|---|---------------------------------|----------------|----------------------------------|----------------------------------|
| <b>Freehold land and buildings</b>  |                                 |                |                                  |                                  |
| 32 Raynham Street Salisbury<br>Queensland 4107 Australia                                | Office building<br>and workshop | 2,200          | Freehold                         | 635                              |
| <b>Leasehold land and buildings</b>   |                                 |                |                                  |                                  |
| 182 Pandan Loop<br>Singapore 128373   | Office building<br>and workshop | 4,460          | 30 years lease<br>from 16.9.1979 | 1,564                            |
| 3 Hala Jati 10<br>Taman Meru Industrial Estate<br>Jelapang 30200 Ipoh<br>Perak Malaysia | Office building<br>and workshop | 2,732          | 60 years lease<br>from 6.9.1984  | 597                              |
| Total   |                                 |                |                                  | 2,161                            |

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 11. SUBSIDIARY COMPANIES

|  | COMPANY        |                |
|--|----------------|----------------|
|  | 2004<br>\$'000 | 2003<br>\$'000 |
| Unquoted shares, at cost :                                     |                |                |
| At beginning of financial year                                 | <b>25,312</b>  | 28,915         |
| Subscription of additional shares in a subsidiary company      | <b>610</b>     | 1,000          |
| Pre-acquisition dividend setoff against cost of investment     | -              | (4,603)        |
| Liquidation of a subsidiary company                            | <b>(2,156)</b> | -              |
| Incorporation of new subsidiary companies                      | <b>3,730</b>   | -              |
| At end of financial year                                       | <b>27,496</b>  | 25,312         |
| Provision for impairment in value of investments               | <b>(9,016)</b> | (9,666)        |
| Net investment in unquoted shares                              | <b>18,480</b>  | 15,646         |
| Inter-company indebtedness :                                   |                |                |
| Amounts owing by subsidiary companies (Trade)                  | <b>154</b>     | 154            |
| Amounts owing by subsidiary companies (Non-trade)              | <b>11,626</b>  | 10,849         |
| Provision for amounts owing by subsidiary companies            | <b>(200)</b>   | (1,876)        |
|  | <b>11,580</b>  | 9,127          |
| Loans to subsidiary companies                                  |                |                |
| - Interest free  | <b>2,639</b>   | 3,420          |
| - Interest bearing   | <b>179</b>     | 748            |
|  | <b>14,398</b>  | 13,295         |
| Amounts owing to subsidiary companies (Non-trade)              | <b>(5,437)</b> | (5,437)        |
| Loan from a subsidiary company                                 | <b>(1,396)</b> | (1,296)        |
|  | <b>7,565</b>   | 6,562          |
|  | <b>26,045</b>  | 22,208         |
| Analysis of provision for impairment in value of investments : |                |                |
| At beginning of financial year                                 | <b>9,666</b>   | 8,605          |
| Provision during the financial year                            | <b>1,506</b>   | 1,061          |
| Write off during the financial year                            | <b>(2,156)</b> | -              |
| At end of financial year                                       | <b>9,016</b>   | 9,666          |

The impairment loss is recognised as part of the operating expenses.

## Notes to the Financial Statements

(In Singapore dollars)

31 March 2004

### 11. SUBSIDIARY COMPANIES (cont'd)

|   | COMPANY        |                |
|---|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 |
| Analysis of provision for amounts owing by subsidiary companies : |                |                |
| At beginning of financial year                                    | 1,876          | 1,791          |
| Provision during the financial year                               | 61             | 85             |
| Write off during the financial year                               | (1,737)        | –              |
| At end of financial year  | 200            | 1,876          |
| By geographical locations :                                       |                |                |
| Singapore   | 11,768         | 12,972         |
| Australia   | 13,073         | 8,554          |
| Malaysia  | 645            | 682            |
| Indonesia   | 559            | –              |
|   | 26,045         | 22,208         |

Trade and non-trade amounts owing by/to subsidiary companies and loan from a subsidiary company are unsecured, interest free and no repayments are expected within the next twelve months.

Interest bearing loan to a subsidiary company is unsecured, bears an interest rate of 2% above interbank swap rate of 0.54% - 0.95% (2003 : 0.81%), and no repayments are expected within the next twelve months.

Further details regarding subsidiary companies are set out in Note 26.

### 12. ASSOCIATED COMPANY

|   | GROUP          |                |
|---|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 |
| Quoted shares, at cost                    | 5,306          | –              |
| Share of post-acquisition reserves        | 306            | –              |
| Recognition of negative goodwill          | 929            | –              |
| Currency realignment                      | 693            | –              |
|   | 7,234          | –              |
| Market value of quoted shares at 31 March | 7,870          | –              |

Associated company relates to the Group's 28.00% equity interest in RCR Tomlinson Ltd ("RCR"). Prior to the additional interest acquired during the financial year, the Group held a 19.99% equity stake in RCR and had classified the investment in RCR as quoted investment under 'other investments'.

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 12. ASSOCIATED COMPANY (cont'd)

|  | GROUP<br>\$'000 |
|--|-----------------|
| Movements in negative goodwill during the financial year : |                 |
| Cost   |                 |
| At 1 April 2003  | –               |
| Additions  | 3,321           |
| At 31 March 2004   | 3,321           |
| Accumulated amount recognised as income                    |                 |
| At 1 April 2003  | –               |
| Recognised during the financial year                       | 929             |
| Currency realignment                                       | (6)             |
| At 31 March 2004   | <b>923</b>      |
| Carrying amount  |                 |
| At 31 March 2004   | <b>2,398</b>    |
| At 31 March 2003   | –               |

Negative goodwill recognised as income is included as part of 'share of results of associated company' in the profit and loss accounts.

Further details regarding associated company are set out in Note 26.

### 13. OTHER INVESTMENTS

|   | GROUP          |                | COMPANY        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Unquoted investment, at cost                                | <b>685</b>     | 685            | <b>685</b>     | 685            |
| Provision for diminution in value<br>of unquoted investment | <b>(685)</b>   | (685)          | <b>(685)</b>   | (685)          |
| Quoted investment, at cost                                  | –              | –              | –              | –              |
|   | –              | 2,813          | –              | –              |
|   | –              | 2,813          | –              | –              |

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(In Singapore dollars)

31 March 2004

### 13. OTHER INVESTMENTS (cont'd)

|  | GROUP          |                | COMPANY        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Analysis of provision for diminution<br>in value of unquoted investments : |                |                |                |                |
| At beginning of financial year   | 685            | –              | 685            | –              |
| Provision during the financial year  | –              | 685            | –              | 685            |
| At end of financial year   | 685            | 685            | 685            | 685            |
| Market value of quoted investment<br>as at 31 March                        |                |                |                |                |
|  | –              | 1,901          | –              | –              |
| Market value of quoted investment<br>as at latest practicable date         |                |                |                |                |
|  | –              | 2,918          | –              | –              |

### 14. OTHER RECEIVABLES

These are interest free loans extended to Directors of subsidiary companies and the management staff of the Company and of the Group to purchase cars. These loans shall be repaid by monthly instalments over seven years with the last repayment due in year 2009. The Directors of the subsidiary companies and the management staff concerned had entered into agreements with the Company and the Group to assign all rights of ownership of the cars to the Company and the Group until full settlement of the loans. The current portion of these loans is disclosed in Note 16.

### 15. INVENTORIES AND WORK-IN-PROGRESS

|   | GROUP          |                |
|---|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 |
| Inventories and work-in-progress, net : |                |                |
| <i>First-in-first-out basis</i>         |                |                |
| - Finished goods                        | 129            | –              |
| - Raw materials                         | 269            | 266            |
| - Work-in-progress                      | 1,153          | 1,165          |
| - Engines and spares                    | 139            | 161            |
|   | 1,690          | 1,592          |

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 15. INVENTORIES AND WORK-IN-PROGRESS (cont'd)

|   | GROUP          |                |
|---|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 |
| <i>Weighted average basis</i>   |                |                |
| - Finished goods  | <b>5,894</b>   | 4,037          |
| - Goods-in-transit  | <b>82</b>      | 39             |
|   | <b>5,976</b>   | 4,076          |
|   | <b>7,666</b>   | 5,668          |
| Finished goods, raw materials and engines<br>and spares are stated after deducting a<br>provision for obsolescence of : |                |                |
| - first-in-first-out basis  | <b>200</b>     | 200            |
| - weighted average basis  | -              | -              |
|   | <b>200</b>     | 200            |
| Analysis of provision for<br>obsolescence of inventories :  |                |                |
| At beginning of financial year  | <b>200</b>     | 500            |
| Currency realignment  | -              | 9              |
| Inventories written off   | -              | (309)          |
| At end of financial year  | <b>200</b>     | 200            |
| Inventories written off directly<br>to profit and loss account  | <b>229</b>     | 104            |

## Notes to the Financial Statements

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### 16. RECEIVABLES

|                                | GROUP          |                | COMPANY        |                |
|--------------------------------|----------------|----------------|----------------|----------------|
|                                | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Trade receivables              | <b>10,176</b>  | 11,489         | -              | -              |
| Advances to suppliers          | <b>86</b>      | -              | -              | -              |
| Sundry deposits                | <b>58</b>      | 49             | <b>3</b>       | 5              |
| Prepayments                    | <b>189</b>     | 85             | <b>26</b>      | 23             |
| Rental receivable              | <b>283</b>     | 289            | <b>283</b>     | 289            |
| Sundry receivables             | <b>300</b>     | 2,186          | <b>78</b>      | 26             |
| Staff loans, current (Note 14) | <b>89</b>      | 94             | <b>25</b>      | 27             |
|                                | <b>11,181</b>  | 14,192         | <b>415</b>     | 370            |

|  |            |     |            |     |
|--|------------|-----|------------|-----|
| Trade receivables are stated<br>after deducting provision<br>for doubtful debts of | <b>546</b> | 562 | <b>113</b> | 113 |
|--|------------|-----|------------|-----|

Analysis of provision for doubtful debts :

|  |             |      |            |     |
|--|-------------|------|------------|-----|
| At beginning of financial year   | <b>562</b>  | 560  | <b>113</b> | 113 |
| Currency realignment<br>(Write back)/charge to profit and<br>loss account, net | <b>27</b>   | 2    | -          | -   |
| - Specific   | <b>(59)</b> | 57   | -          | -   |
| - General  | <b>111</b>  | (38) | -          | -   |
| Bad debts written off  | <b>(95)</b> | (19) | -          | -   |
| At end of financial year   | <b>546</b>  | 562  | <b>113</b> | 113 |

|  |           |    |   |   |
|--|-----------|----|---|---|
| Bad debts written off directly<br>to profit and loss account | <b>79</b> | 15 | - | - |
|--|-----------|----|---|---|

### 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following balance sheet amounts :

|                            | GROUP          |                |
|----------------------------|----------------|----------------|
|                            | 2004<br>\$'000 | 2003<br>\$'000 |
| Cash at bank and in hand   | <b>2,446</b>   | 2,980          |
| Fixed deposits             | <b>3,809</b>   | 7,705          |
| Bank overdrafts, unsecured | <b>(250)</b>   | -              |
|                            | <b>6,005</b>   | 10,685         |

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(In Singapore dollars)

### 17. CASH AND CASH EQUIVALENTS (cont'd)

Fixed deposits with the financial institutions mature on varying periods within 7 days (2003 : 7 days - 1 month) from the financial year end. Interest rates range from 0.19% to 0.44% (2003 : 0.38% to 0.58%) per annum.

### 18. PAYABLES : AMOUNTS FALLING DUE WITHIN ONE YEAR

|  | GROUP          |                | COMPANY        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Bank overdraft, unsecured                                | 250            | –              | –              | –              |
| Bank overdrafts, secured (Note 19)                       | 1,910          | 969            | –              | –              |
| Short term bank loans, secured (Note 19)                 | 2,600          | 2,600          | –              | –              |
| Long term bank loans, secured                            |                |                |                |                |
| - current portion (Note 19)                              | 3,649          | 2,566          | –              | –              |
| Trade payables   | 5,499          | 6,441          | 24             | 53             |
| Finance lease payables                                   | 1              | 70             | –              | –              |
| Sundry payables  | 2,746          | 1,392          | 280            | 212            |
| Accruals for staff related costs                         | 2,462          | 2,587          | 301            | 508            |
| Loan from a minority shareholder of a subsidiary company | 1,386          | 830            | –              | –              |
|  | <b>20,503</b>  | <b>17,455</b>  | <b>605</b>     | <b>773</b>     |

The unsecured bank overdraft bears interest at 2.5% above the bank's cost of fund which ranges between 6.50% to 6.75%.

The secured bank overdrafts and short term bank loans relate to facilities utilised by two subsidiary companies. Details of the securities provided are listed in Note 19(i) and (ii).

The secured bank overdrafts bear interest at 2% above the relevant bank's reference lending rate of 8.5% and 1% above the bank's prime lending rate of 5% (2003 : 5% to 5.25%) respectively.

The secured short term bank loans are 90-day revolving loans which bear interest at 2% above Swap rate which ranges from 0.54% to 0.91% (2003 : 0.75% to 1.36%).

The loans from a minority shareholder of a subsidiary company relate to loans from Mr Samuel Bernard Sasson to MTQ Subsea Technology Pte Ltd, a 75% owned subsidiary company of the Company. Mr Sasson is also a director of both the Company and MTQ Subsea Technology Pte Ltd.

The loan are unsecured, have no fixed terms of repayments and are interest free, except for an amount of \$727,000 (2003 : \$200,000) which bears interest from 2.606% to 2.870% (2003 : 2.750% to 2.806%).

## Notes to the Financial Statements

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### 18. PAYABLES : AMOUNTS FALLING DUE WITHIN ONE YEAR (cont'd)

#### Finance lease commitments

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

|   | MINIMUM<br>PAYMENTS<br>2004<br>\$'000 | PRESENT<br>VALUE OF<br>PAYMENTS<br>2004<br>\$'000 | MINIMUM<br>PAYMENTS<br>2003<br>\$'000 | PRESENT<br>VALUE OF<br>PAYMENTS<br>2003<br>\$'000 |
|---|---------------------------------------|---|---------------------------------------|---|
| <b>Group</b>                                |                                       |   |                                       |   |
| Within one year                             | 1                                     | 1   | 74                                    | 70  |
| After one year but not more than five years | -                                     | -   | 1                                     | 1   |
| Total minimum lease payments                | 1                                     | 1   | 75                                    | 71  |
| Less : Amounts representing finance charges | -                                     | -   | (4)                                   | -   |
| Present value of minimum lease payments     | 1                                     | 1   | 71                                    | 71  |

### 19. PAYABLES : AMOUNTS FALLING DUE AFTER ONE YEAR

|                                  | GROUP          |                |
|----------------------------------|----------------|----------------|
|                                  | 2004<br>\$'000 | 2003<br>\$'000 |
| Finance lease payables (Note 18) | -              | 1              |
| Long term bank loans, secured    | 11,869         | 10,120         |
|                                  | 11,869         | 10,121         |

The secured bank overdrafts, short term bank loans and long term bank loans relate to those loans granted to three subsidiary companies as follows :-

- (i) Total bank borrowings in Australian Dollars equivalent to \$11,965,000 granted to a subsidiary company, of which \$8,375,000 falls due after one year, is secured by the following :-
- first legal mortgage over the subsidiary company's property at Raynham St. Salisbury, Queensland, Australia, with a net book value of \$635,000 as at 31 March 2004;
  - legal assignment of the sale proceeds of the aforementioned property to the bank;
  - legal charge over the equity interest held by the subsidiary company in another body corporate;
  - corporate guarantee from the Company;
  - fixed and floating charge over the assets of the subsidiary company; and
  - deed of subordination from a fellow subsidiary company.

The long term bank loans mature in September 2008 and October 2008, and are repayable in equal monthly instalments. The loans bear interest at 2% above the 30-day bank's bill rate ranging from 6% to 9% (2003 : 5% to 7%).

## Notes to the Financial Statements

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(In Singapore dollars)

### 19. PAYABLES : AMOUNTS FALLING DUE AFTER ONE YEAR (cont'd)

(ii) Total bank borrowings of \$6,259,000 granted to a subsidiary company, of which \$2,690,000 falls due after one year, are secured by the following :-

- floating charge over its assets;
- corporate guarantees from its subsidiary company and the Company;
- personal guarantee from its minority shareholder;
- deed of subordination from the Company and its minority shareholder; and
- standby letter of credit supported by its minority shareholder.

The long term bank loans bear interest at 0.25% above the bank's prime lending rate of 5% (2003 : 5% to 5.25%), and repayable in equal monthly instalments within each financial years as follows:

|                     | \$'000 |
|---------------------|--------|
| Financial year 2005 | 520    |
| Financial year 2006 | 800    |
| Financial year 2007 | 1,050  |
| Financial year 2008 | 840    |
|                     | 3,210  |

(iii) Total bank borrowings of \$1,804,000 granted to a subsidiary company, of which \$804,000 falls due after one year, is secured by the following :-

- fixed charge on certain workshop equipment with a net book value of \$1,869,789 (2003 : \$2,321,000) purchased with part of the bank borrowings;
- corporate guarantee provided by the Company; and
- deed of subordination from the Company.

The long term bank loan matures on 31 December 2005, and is repayable on a semi-annual basis commencing January 2004. The loan bears interest at 2% above the bank's prevailing cost of funds of 0.75% (2003 : 0.75%).

### 20. DEFERRED TAX LIABILITIES/(ASSETS)

|   | GROUP          |                | COMPANY        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| At beginning of financial year                  | <b>72</b>      | 494            | <b>184</b>     | 725            |
| Currency realignment                            | <b>(67)</b>    | (24)           | -              | -              |
| Provided/(write back) during the financial year | <b>98</b>      | (398)          | <b>(52)</b>    | (541)          |
| At end of financial year                        | <b>103</b>     | 72             | <b>132</b>     | 184            |

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(In Singapore dollars)

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### 20. DEFERRED TAX LIABILITIES/(ASSETS) (cont'd)

|   | GROUP          |                | COMPANY        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>Deferred tax liabilities</b>   |                |                |                |                |
| Excess of net book value over<br>tax written down value of<br>property, plant and equipment | <b>377</b>     | 339            | <b>105</b>     | 142            |
| Unrealised foreign exchange difference  | <b>426</b>     | 131            | <b>57</b>      | –              |
| Others  | <b>217</b>     | 142            | <b>2</b>       | 64             |
|   | <b>1,020</b>   | 612            | <b>164</b>     | 206            |
| <b>Deferred tax assets</b>  |                |                |                |                |
| Unabsorbed capital allowances and<br>tax losses   | <b>(151)</b>   | (142)          | <b>(1)</b>     | –              |
| Employee benefits   | <b>(489)</b>   | (304)          | <b>(19)</b>    | (15)           |
| Others  | <b>(277)</b>   | (94)           | <b>(12)</b>    | (7)            |
|   | <b>(917)</b>   | (540)          | <b>(32)</b>    | (22)           |
|   | <b>103</b>     | 72             | <b>132</b>     | 184            |

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

|                          | GROUP          |                | COMPANY        |                |
|--------------------------|----------------|----------------|----------------|----------------|
|                          | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Deferred tax assets      | <b>(356)</b>   | (297)          | –              | –              |
| Deferred tax liabilities | <b>459</b>     | 369            | <b>132</b>     | 184            |
|                          | <b>103</b>     | 72             | <b>132</b>     | 184            |

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 21. SHARE CAPITAL

|   | GROUP AND COMPANY |                |
|---|-------------------|----------------|
|   | 2004<br>\$'000    | 2003<br>\$'000 |
| Authorised :  |                   |                |
| 120,000,000 ordinary shares of \$0.25 each  | <b>30,000</b>     | 30,000         |
| Issued and fully-paid :   |                   |                |
| At beginning of financial year  |                   |                |
| 79,200,000 (2003 : 79,200,000) ordinary shares of \$0.25 each                               | <b>19,800</b>     | 19,800         |
| Issued during the financial year  |                   |                |
| 349,000 (2003 : nil) ordinary shares of \$0.25 each<br>for cash at a premium of \$0.05 each | <b>87</b>         | –              |
| At end of financial year  |                   |                |
| 79,549,000 (2003 : 79,200,000) ordinary shares of \$0.25 each                               | <b>19,887</b>     | 19,800         |

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.

There are outstanding options to subscribe for ordinary shares of the Company granted under the Previous Scheme and the Scheme as disclosed in Note 28.

### 22. RESERVES

|  | GROUP          |                | COMPANY        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Distributable reserves                 |                |                |                |                |
| - Retained earnings                    | <b>8,923</b>   | 8,845          | <b>7,236</b>   | 10,697         |
| - Foreign currency translation reserve | <b>1,505</b>   | 701            | –              | –              |
| Non-distributable reserve              |                |                |                |                |
| - Share premium                        | <b>1,962</b>   | 1,944          | <b>1,962</b>   | 1,944          |
|  | <b>12,390</b>  | 11,490         | <b>9,198</b>   | 12,641         |

#### **Foreign currency translation reserve companies**

The foreign currency translation reserve comprises translation differences arising from the translation of assets and liabilities of foreign subsidiary companies and associated company for inclusion in the consolidated financial statements.

#### **Share premium**

The share premium account represents net cash proceeds received in excess of the par value of the shares issued by the Company. The utilisation of the share premium account is governed by Section 69-69F of the Companies Act.

Movements in reserves are set out in the statements of changes in equity.

## Notes to the Financial Statements

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### 23. DIVIDENDS

|  | GROUP AND COMPANY |        |
|--|-------------------|--------|
|  | 2004              | 2003   |
|  | \$'000            | \$'000 |
| Paid in respect of the previous financial year :                               |                   |        |
| - Final dividend of 6%, less tax   | 928               | -      |
| - First and final dividend of 5%, less tax                                     | -                 | 772    |
| - Special dividend of 5%, less tax   | -                 | 772    |
| Paid in respect of the current financial year :                                |                   |        |
| - Interim dividend of 4%, less tax   | 621               | 618    |
|  | <b>1,549</b>      | 2,162  |
| After the balance sheet date, the Directors proposed the following dividends : |                   |        |
| Final dividend of 6%, less tax   | <b>1,145</b>      | 926    |

Proposed dividend is calculated based on total ordinary shares issued as at 24 May 2004.

The dividends will be recorded as a liability on the balance sheets of the Company and the Group upon approval of the shareholders at the next Annual General Meeting of the Company.

### 24. COMMITMENTS AND CONTINGENCIES

#### Operating leases

The Group leases certain property under lease agreements that are non-cancellable within a year. The leases expire at various dates till year 2009 and contain provision for rental adjustments. Future minimum lease payments for all leases with initial or remaining terms of one year or more are as follows :

|   | GROUP        |        | COMPANY      |        |
|---|--------------|--------|--------------|--------|
|   | 2004         | 2003   | 2004         | 2003   |
|   | \$'000       | \$'000 | \$'000       | \$'000 |
| Within one year                             | 1,145        | 967    | 190          | 201    |
| After one year but not more than five years | 3,138        | 3,224  | 770          | 859    |
| More than five years                        | 97           | 346    | 97           | 346    |
|   | <b>4,380</b> | 4,537  | <b>1,057</b> | 1,406  |

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 24. COMMITMENTS AND CONTINGENCIES (cont'd)

#### Capital expenditure

As at 31 March 2004, the Group has the following capital expenditure commitments :

|                              | GROUP          |                |
|------------------------------|----------------|----------------|
|                              | 2004<br>\$'000 | 2003<br>\$'000 |
| Authorised but not committed | 2,211          | 2,302          |
| Authorised and committed     | 159            | –              |
|                              | <b>2,370</b>   | 2,302          |

#### Contingent liabilities

- (i) As at 31 March 2004, the corporate guarantees provided by the Company to banks for facilities extended to subsidiary companies amounted to \$23,394,000 (2003 : \$17,937,000).
- (ii) MTQ Engine Systems (Aust) Pty Ltd ("MTQES"), a wholly-owned subsidiary company of the Company, had previously supplied a turbocharger to CSR Limited ("CSR") in 2002 (the "2002 Turbocharger"). The turbocharger was destroyed in an incident in early February 2003 and CSR contracted with MTQES to provide a replacement turbocharger (the "2003 Turbocharger"). MTQES separately invoiced CSR for each of the turbochargers, but only received payment for the 2002 Turbocharger. MTQES commenced proceedings against CSR in the Supreme Court of Queensland in Brisbane in September 2003 to recover the 2003 Turbocharger invoice sum (being A\$516,714 plus interests and costs). In its defence, CSR has, inter alia, alleged that the turbochargers were not in conformity with the relevant contracts and has counterclaimed against MTQES for loss and damage for an amount presently estimated at A\$930,000. The parties are presently completing interlocutory steps and the matter is progressing toward trial in the Supreme Court of Queensland.

Based on the present advice of its Australian legal counsel, MTQES believes that it has good prospects of success in its claim against CSR. MTQES and its Australian legal counsel are presently undertaking further investigations into the allegations in CSR's defence and counterclaim. MTQES is insured for the full sum counterclaimed by CSR. In view of the good prospects of success, no provision has been made in the financial statements at this stage, other than a provision for legal fees.

## Notes to the Financial Statements

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### 24. COMMITMENTS AND CONTINGENCIES (cont'd)

#### **Forward exchange contracts**

As at financial year end, the Group has the following outstanding forward foreign exchange contract commitments :

|                         | RANGE OF FORWARD<br>EXCHANGE RATES |      | NOTIONAL AMOUNT |                |
|-------------------------|------------------------------------|------|-----------------|----------------|
|                         | 2004                               | 2003 | 2004<br>\$'000  | 2003<br>\$'000 |
| To sell :               |                                    |      |                 |                |
| - United States dollars | 1.6708                             | -    | 535             | -              |

Fair value adjustment amounted to a loss of approximately \$2,000 as at financial year end.

The fair value adjustment represents the difference between the contracted rate and market rate of the forward foreign exchange contract at the balance sheet date. The market rate used is quoted by the Group's banker assuming the contract was to be liquidated at balance sheet date. This fair value adjustment is not recognised in the financial statements.

#### **Other commitments**

There are 2 non-cancellable consultancy agreements entered into by a subsidiary company :

- (i) The subsidiary company has to pay a fee of A\$456,000 (approximately \$581,000) per annum for consultancy services to a firm owned by its director. The consultancy fee is to be paid half-yearly over 5 years with the last payment due on 29 November 2004. In the event where the subsidiary company sells or disposes its business, or the Company ceases to hold at least 50% of the issued shares of the subsidiary company, the whole of the balance of the consultancy fee in respect of the remainder of the term of the consultancy agreement is payable. The consultancy fees are determined on a commercial basis.
- (ii) The subsidiary company entered into a consultancy agreement during the financial year with the previous owner of AFI group, Mr DonWilkey, for the provision of consultancy services in respect of the development of its fuel injection business. Under the agreement, it has to pay a fee of A\$100,000 (\$127,000) per annum for consultancy services, six monthly in arrears over 5 years, commencing 23 April 2004.

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### 25. INFORMATION BY SEGMENT ON GROUP'S OPERATIONS

The Group's operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different industries as follows :

**(i) Investment holding**

Provides management and corporate services to its subsidiary companies. It also derives rental income from its local subsidiary companies. The Group's central overheads are also classified here.

**(ii) Oilfield and marine**

Provides engineering services for the reconditioning of oilfield equipment such as valves and blow-out preventers used in the oil and gas industry.

Prior to the disposal of the marine segment in May 2002, the Group had also provided marine repair services.

**(iii) Engine systems**

Provides sales and servicing of small frame turbochargers, large frame turbochargers, as well as supplying and installing turbocharger kits for diesel four-wheel drive vehicles. The turbochargers serviced are found in a wide range of vehicles and machinery, including trucks, earth moving equipment, agricultural machinery, marine vessels, generator sets, and railway equipment. The segment also distributes and services fuel injection parts.

**(iv) Subsea robotics**

Engages in designing, manufacturing and leasing of remotely operated vehicles (ROVs) for subsea operations. This segment operates mainly in Asia and the North Sea region. Its ROV fleet comprises 2 observation class, 2 light work class, 1 heavy work class, and 2 mid-range ROVs.

**(v) Multi-disciplined engineering**

Provides integrated engineering solutions through 4 core areas of businesses comprising mechanical repairs and maintenance services, equipment manufacture, fabrication, installation and servicing of boilers and site maintenance and construction.

Inter-segment sales are based on terms determined on a commercial basis.



## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 25. INFORMATION BY SEGMENT ON GROUP'S OPERATIONS (cont'd)

#### By industrial segments

#### 2004

|  | INVESTMENT<br>HOLDING<br>\$'000 | OILFIELD<br>AND MARINE<br>\$'000 | ENGINE<br>SYSTEMS<br>\$'000 | SUBSEA<br>ROBOTICS<br>\$'000 | MULTI-<br>DISCIPLINED<br>ENGINEERING<br>\$'000 | OTHERS<br>\$'000 | ELIMINATIONS<br>\$'000 | GROUP<br>\$'000 |
|--|---------------------------------|----------------------------------|-----------------------------|------------------------------|--|------------------|------------------------|-----------------|
| <b>Other segmental information</b>                       |                                 |                                  |                             |                              |  |                  |                        |                 |
| Capital expenditure                                      | 51                              | 187                              | 2,509                       | 565                          | -  | -                | -                      | 3,312           |
| Depreciation   | 476                             | 747                              | 527                         | 2,044                        | -  | 16               | 14                     | 3,824           |
| <i>Other non-cash (income)/expenses</i>                  |                                 |                                  |                             |                              |  |                  |                        |                 |
| - (Profit)/loss on sale of property, plant and equipment | (3)                             | (19)                             | 3                           | 25                           | -  | -                | -                      | 6               |
| - Amortisation of goodwill                               | -                               | -                                | 243                         | -                            | -  | -                | -                      | 243             |
| - Restructuring costs                                    | -                               | -                                | -                           | 332                          | -  | -                | -                      | 332             |
| - Dilution of minority interests in subsidiary company   | -                               | -                                | -                           | -                            | -  | -                | (18)                   | (18)            |
| - Goodwill written off                                   | -                               | -                                | -                           | -                            | -  | -                | 81                     | 81              |
|  | (3)                             | (19)                             | 246                         | 357                          | -  | -                | 63                     | 644             |

#### By geographical segments

#### 2004

|                     | SINGAPORE<br>\$'000 | AUSTRALIA<br>\$'000 | UNITED<br>KINGDOM<br>\$'000 | MALAYSIA<br>\$'000 | INDONESIA<br>\$'000 | TOTAL<br>\$'000 |
|---------------------|---------------------|---------------------|-----------------------------|--------------------|---------------------|-----------------|
| External sales      | 16,228              | 32,688              | 3,800                       | -                  | 22                  | 52,738          |
| Segment assets      | 26,468              | 28,351              | 10,618                      | (206)              | 89                  | 65,320          |
| Capital expenditure | 738                 | 2,167               | 65                          | -                  | 342                 | 3,312           |



## Notes to the Financial Statements

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### 25. INFORMATION BY SEGMENT ON GROUP'S OPERATIONS (cont'd)

#### By geographical segments

#### 2003

|  | INVESTMENT<br>HOLDING<br>\$'000 | OILFIELD<br>AND<br>MARINE<br>\$'000 | ENGINE<br>SYSTEMS<br>\$'000 | SUBSEA<br>ROBOTICS<br>\$'000 | OTHERS<br>\$'000 | ELIMINATIONS<br>\$'000 | GROUP<br>\$'000 |
|--|---------------------------------|-------------------------------------|-----------------------------|------------------------------|------------------|------------------------|-----------------|
| <b>Other segmental information</b>                             |                                 |                                     |                             |                              |                  |                        |                 |
| Capital expenditure  | 432                             | 2,654                               | 951                         | 5,795                        | –                | –                      | 9,832           |
| Depreciation   | 481                             | 562                                 | 370                         | 1,417                        | 16               | 14                     | 2,860           |
| <i>Other non-cash (income)/<br/>expenses</i>                   |                                 |                                     |                             |                              |                  |                        |                 |
| - Gain on disposition of<br>discontinuing<br>operation         | (1,118)                         | (2,366)                             | –                           | –                            | –                | –                      | (3,484)         |
| - Provision for<br>diminution in value<br>of investment        | 685                             | –                                   | –                           | –                            | –                | –                      | 685             |
| - (Profit)/loss on sale of<br>property, plant and<br>equipment | (91)                            | –                                   | 75                          | –                            | –                | –                      | (16)            |
| - Amortisation of goodwill                                     | –                               | –                                   | 69                          | –                            | –                | –                      | 69              |
| - Goodwill written off   | –                               | –                                   | –                           | –                            | –                | 6                      | 6               |
|  | (524)                           | (2,366)                             | 144                         | –                            | –                | 6                      | (2,740)         |

#### By geographical segments

#### 2003

|                     | SINGAPORE<br>\$'000 | AUSTRALIA<br>\$'000 | MALAYSIA<br>\$'000 | UNITED<br>KINGDOM<br>\$'000 | TOTAL<br>\$'000 |
|---------------------|---------------------|---------------------|--------------------|-----------------------------|-----------------|
| External sales      | 19,725              | 23,218              | –                  | 5,087                       | 48,030          |
| Segment assets      | 36,052              | 13,399              | (129)              | 10,753                      | 60,075          |
| Capital expenditure | 6,689               | 951                 | –                  | 2,192                       | 9,832           |

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### 26. SUBSIDIARY COMPANIES AND ASSOCIATED COMPANY

The subsidiary companies and associated company as at 31 March are :

| NAME OF COMPANY<br>(COUNTRY OF INCORPORATION)                 | PRINCIPAL ACTIVITIES<br>(PLACE OF BUSINESS)                                       | COST           |                | PERCENTAGE OF<br>EQUITY HELD<br>BY THE GROUP |           |
|---|---|----------------|----------------|--|-----------|
|   |   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>%                                    | 2003<br>% |
| <b>Subsidiary companies :</b>                                 |   |                |                |  |           |
| Unquoted equity shares held by the Company :                  |   |                |                |  |           |
| MTQ Engineering Pte Ltd<br>(Republic of Singapore)            | Providing engineering services in oil and gas industry<br>(Republic of Singapore) | <b>1,312</b>   | 1,312          | <b>100</b>                                   | 100       |
| MTQ Subsea Technology Pte Ltd<br>(Republic of Singapore)      | Designing, building and operation of subsea robotics<br>(Republic of Singapore)   | <b>4,610</b>   | 4,000          | <b>75.0</b>                                  | 72.7      |
| MTQ Services Pte. Ltd.<br>(Republic of Singapore)             | Inactive<br>(Republic of Singapore)   | <b>6,112</b>   | 6,112          | <b>100</b>                                   | 100       |
| Metalock Oilfield Services Pte Ltd<br>(Republic of Singapore) | Inactive<br>(Republic of Singapore)   | <b>542</b>     | 542            | <b>100</b>                                   | 100       |
| Metalock Engineering Pte Ltd<br>(Republic of Singapore)       | Inactive<br>(Republic of Singapore)   | <b>37</b>      | 37             | <b>100</b>                                   | 100       |
| # MTQ Engine Systems (Aust) Pty Ltd<br>(Australia)            | Sales and servicing of turbochargers and fuel injection parts<br>(Australia)      | <b>5,295</b>   | 5,295          | <b>100</b>                                   | 100       |
| # MTQ Holdings Pty Ltd<br>(Australia)                         | Investment holdings<br>(Australia)  | <b>3,556</b>   | –              | <b>100</b>                                   | –         |
| ** PT MTQ Engine Systems<br>Indonesia<br>(Indonesia)          | Sales and servicing of turbochargers<br>(Indonesia)                               | <b>174</b>     | –              | <b>100</b>                                   | –         |
| @ Metalock Castings Sdn Bhd<br>(Malaysia)                     | Inactive<br>(Malaysia)  | <b>5,858</b>   | 5,858          | <b>99.9</b>                                  | 99.9      |
| @ MTQ Engineering Sdn Bhd<br>(Malaysia)                       | Inactive<br>(Malaysia)  | – •            | –              | <b>100</b>                                   | –         |

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 26. SUBSIDIARY COMPANIES AND ASSOCIATED COMPANY (cont'd)

The subsidiary companies and associated company as at 31 March are :

| NAME OF COMPANY<br>(COUNTRY OF INCORPORATION)   | PRINCIPAL ACTIVITIES<br>(PLACE OF BUSINESS) | COST           |                | PERCENTAGE OF<br>EQUITY HELD<br>BY THE GROUP |           |
|---|---|----------------|----------------|--|-----------|
|   |   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>%                                    | 2003<br>% |
| Metsing-Fabrico De<br>Componentes De<br>Maquinaria Diesel E<br>Industrial, Limitada<br>(Portugal) | Liquidated<br>(Portugal)                    | –              | 2,156          | –  | 90        |
|   |   | <b>27,496</b>  | 25,312         |  |           |

Unquoted equity shares held by subsidiary companies :

|   |  |              |       |             |      |
|---|--|--------------|-------|-------------|------|
| * MTQ Subsea Limited<br>(United Kingdom)                                | Operation of subsea robotics<br>(United Kingdom)       | <b>1,734</b> | 1,734 | <b>75.0</b> | 72.7 |
| *** Dynamic Turbocharger<br>Services (Australia) Pty Ltd<br>(Australia) | Inactive<br>(Australia)                                | – •          | – •   | <b>100</b>  | 100  |
| ** PT MTQ Engine Systems<br>Indonesia<br>(Indonesia)                    | Sales and servicing<br>of turbochargers<br>(Indonesia) | <b>2</b>     | –     | <b>100</b>  | –    |

#### Associated company :

Quoted equity shares held by subsidiary companies :

|                                    |   |              |   |             |   |
|------------------------------------|---|--------------|---|-------------|---|
| ^ RCR Tomlinson Ltd<br>(Australia) | Provision of multi-disciplined<br>engineering services<br>(Australia) | <b>5,306</b> | – | <b>28.0</b> | – |
|------------------------------------|---|--------------|---|-------------|---|

# Audited by Ernst & Young, Australia

@ Audited by Ernst & Young, Malaysia

\* Audited by Ernst & Young, United Kingdom

\*\* Audited by Prasetio, Sarwoko & Sandjaja, Indonesia, a member firm of Ernst & Young Global

\*\*\* Not required to be audited by the law in its country of incorporation

• The cost of investments in each of these subsidiary companies is less than \$1,000

^ Audited by RSM Bird Cameron Partners, Australia

Except otherwise indicated, the above subsidiary companies are audited by Ernst & Young, Singapore

## Notes to the Financial Statements

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### 27. ACQUISITION AND DISPOSAL OF SUBSIDIARY COMPANIES

- (i) During the financial year, the Group incorporated/acquired the following interests in the subsidiary companies as follows :-

|                                    | CONSIDERATION<br>\$'000 | GROUP'S EFFECTIVE<br>INTEREST |            | TOTAL<br>ASSETS<br>AS AT 31<br>MARCH 2004 | TOTAL<br>LIABILITIES<br>AS AT 31<br>MARCH 2004 | EXTERNAL<br>REVENUE<br>\$'000 | RESULTS FOR<br>THE FINANCIAL YEAR                                   |   |
|------------------------------------|-------------------------|-------------------------------|------------|---|--|-------------------------------|---|---|
|                                    |                         | BEFORE<br>%                   | AFTER<br>% | \$'000                                    | \$'000   |                               | PROFIT/(LOSS)<br>FROM<br>OPERATIONS<br>BEFORE<br>TAXATION<br>\$'000 | PROFIT/<br>(LOSS)<br>ATTRIBUTABLE<br>TO<br>SHAREHOLDERS<br>\$'000 |
| PT MTQ Engine<br>Systems Indonesia | 174                     | -                             | 100.00     | 96  | 286  | 22                            | (358)   | (360)   |
| MTQ Holdings Pty Ltd               | *                       | -                             | 100.00     | 3,898                                     | -  | -                             | 98  | 98  |
| MTQ Subsea Technology<br>Pte Ltd # | 610                     | 72.25                         | 75.00      | 12,488                                    | 9,724  | 6,371                         | (1,451)   | (1,451)   |
| MTQ Engineering<br>Sdn Bhd         | *                       | -                             | 100.00     | *   | *  | *                             | *   | *   |

# Arising from the above, the Group's effective interest in MTQ Subsea Limited, a wholly-owned subsidiary company of MTQ Subsea Technology Pte Ltd also increased from 72.25% to 75.00%. The total assets and liabilities, as well as the results for the financial year disclosed above represent that of the consolidated financial position and results of MTQ Subsea Technology Pte Ltd and MTQ Subsea Limited before adjustment for minority interests.

\* Less than \$1,000

- (ii) The finalisation of the liquidation of Metsing-Fabrico De Componentes De Maquinaria Diesel E Industrial, Limitada (Portugal) during the financial year does not have any significant effect on the revenue and results of the Group in the current financial year.

### 28. EMPLOYEE BENEFITS - SHARE OPTIONS

The Metalock Executives' Share Option Scheme (the "Previous Scheme") was approved by shareholders of the Company at an Extraordinary General Meeting held on 8 August 2000. The Previous Scheme was subsequently replaced by a new option scheme known as The MTQ Corporation Executives' Share Option Scheme 2003 (the "Scheme") upon approval granted by shareholders of the Company at an Extraordinary General Meeting held on 14 April 2003.

## Notes to the Financial Statements

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(In Singapore dollars)

### 28. EMPLOYEE BENEFITS - SHARE OPTIONS (cont'd)

Unlike the Previous Scheme, the Scheme, inter alia, allows for the participation of executives who meet the eligibility criteria but who are also controlling shareholders. Although the Previous Scheme is replaced by the Scheme, any subsisting and outstanding share options granted under the Previous Scheme continues to be exercisable in accordance with the terms of the Previous Scheme.

The Previous Scheme and the Scheme are administered by the Remuneration Committee appointed by the Directors of the Company. The Remuneration Committee comprises the following members during the financial year and as at the date of this report:

Philip Eng Heng Nee (Chairman)  
Huang Yuan Chiang  
Ong Choo Eng  
Ian Wayne Spence

The selection of the participants in the Scheme and the grant of options are to be determined by the Remuneration Committee at its absolute discretion.

The principal terms of the Scheme are:

#### (i) SCHEME SIZE AND DURATION

The aggregate nominal amount of new shares over which the Remuneration Committee may grant options pursuant to the Scheme, when added to the nominal amount of ordinary new shares issued and issuable in respect of all options granted under the Scheme and the Previous Scheme, shall not exceed fifteen per cent (15%) ("Maximum Limit") of the issued share capital of the Company on the day preceding the date of grant.

The Scheme shall continue in existence at the discretion of the Remuneration Committee subject to a maximum period of ten years commencing from the date the Scheme is adopted by the Company in general meeting, provided always that the Scheme may be extended beyond the ten year period with the approval of the shareholders by ordinary resolution in general meeting and of any relevant authorities as may be required. The Company in general meeting, may always by ordinary resolution terminate the continuation of the Scheme at any time.

Termination of the Scheme shall not affect options which have been granted, whether such options have been exercised (whether fully or partially) or not.

## Notes to the Financial Statements

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### 28. EMPLOYEE BENEFITS - SHARE OPTIONS (cont'd)

#### (ii) *Eligibility to participate in the Scheme*

In respect of the Scheme, the following categories of individuals shall be eligible to participate:

- Directors and employees of the Company;
- directors and employees of subsidiary companies of the Company;
- directors and employees of associated companies (a company as defined in the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") and over which the Company has control); and
- subject to the conditions in the following paragraphs, directors and employees of the Company and subsidiary companies of the Company who are controlling shareholders of the Company (as defined in the Listing Manual of the SGX-ST)

Employees refer to only confirmed non-bargainable employees who are at least twenty-one years of age.

In respect of any person who is a director or employee of the Company or a subsidiary company of the Company, and who is also a controlling shareholder of the Company,

- associates (as defined in the Listing Manual of the SGX-ST) of the controlling shareholders shall not be eligible to participate in the Scheme;
- the total number of new ordinary shares in respect of which options may be granted to such controlling shareholders shall not exceed twenty-five per cent (25%) of the Maximum Limit; and
- the total number of new ordinary shares in respect of which options may be granted to each of such controlling shareholders shall not exceed ten per cent (10%) of the Maximum Limit.

Controlling shareholders shall not participate in the Scheme unless their participation and the actual number of new ordinary shares and terms of any option to be granted to each of them have been approved by the independent shareholders in general meeting in separate resolutions.

## Notes to the Financial Statements

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(In Singapore dollars)

### 28. EMPLOYEE BENEFITS - SHARE OPTIONS (cont'd)

#### (iii) *Grant of Options*

Options under the Scheme may be granted at any time during the period when the Scheme is in force, except that in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is made, options may be granted only on or after the second Market Day after the day on which such announcement is released. In addition, no options is granted during any other period specified by the Board to be a period in which officers of the Company must not deal in securities of the Company.

#### (iv) *Exercise Period*

Subject to the other rules of the Scheme, the option granted can be exercised by the option holder at any time during a period commencing on the first anniversary from the date of grant or such later date at the discretion of the Remuneration Committee, and expiring on the day immediately preceding:

- the tenth anniversary of the date of grant in the case of executive directors and employees of the Company or its subsidiaries; or
- the fifth anniversary of the date of grant in the case of all other participants.

An option granted with subscription price fixed at a discount to market price can only be exercised after the second anniversary of the date of grant.

#### (v) *Subscription Price*

The Subscription Price for each share comprised in an option that is exercisable, shall be equal to the average of the last dealt prices (rounded up to the nearest cent) of the Company's shares on the SGX-ST for the three consecutive market days immediately preceding the date of grant ("Market Price") of such option, provided that at the absolute discretion of the Remuneration Committee, the subscription price may be fixed at the time of grant of options at no less than eighty per cent (80%) of the Market Price.

The subscription price shall in no event be less than the nominal value of a Company share.

## Notes to the Financial Statements

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### 28. EMPLOYEE BENEFITS - SHARE OPTIONS (cont'd)

Movements in the number of share options held under the Previous Scheme and the Scheme are as follows:

|                                | NO. OF<br>OPTIONS<br>2004 | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE PER<br>SHARE AS AT<br>31.3.2004 | NO. OF<br>OPTIONS<br>2003 | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE PER<br>SHARE AS AT<br>31.3.2003 |
|--------------------------------|---------------------------|--|---------------------------|--|
| At beginning of financial year | 1,355,000                 | \$0.30   | 1,850,000                 | \$0.30   |
| Granted                        | 1,950,000                 | \$0.43   | –                         | –  |
| Exercised                      | (349,000)                 | \$0.30   | –                         | –  |
| Cancelled                      | (110,000)                 | \$0.32   | (495,000)                 | \$0.30   |
| At end of financial year       | 2,846,000                 | \$0.39   | 1,355,000                 | \$0.30   |

The following table summarises information about options outstanding and exercisable as at 31 March 2004 to subscribe for ordinary shares of \$0.25 each in the Company :

| DATE OF<br>GRANT | NO. OF<br>OPTIONS<br>OUTSTANDING | EXERCISE<br>PRICE PER<br>SHARE | EXERCISE PERIOD |                 | NO. OF<br>OPTIONS<br>EXERCISABLE |
|------------------|----------------------------------|--------------------------------|-----------------|-----------------|----------------------------------|
|                  |                                  |                                | FROM            | TO              |                                  |
| 15 October 2000  | 200,000                          | \$0.30                         | 16 October 2002 | 15 October 2005 | 200,000                          |
| 15 October 2000  | 711,000                          | \$0.30                         | 16 October 2002 | 15 October 2010 | 711,000                          |
| 31 July 2003     | 440,000                          | \$0.43                         | 1 August 2004   | 30 July 2008    | –                                |
| 31 July 2003     | 1,495,000                        | \$0.43                         | 1 August 2004   | 30 July 2013    | –                                |
|                  | 2,846,000                        |                                |                 |                 | 911,000                          |

Except for the above, no other options were granted by the Company during the financial year.

The holders of the share options have no right to participate by virtue of these options in any share issue of any other company in the Group.

## Notes to the Financial Statements

31 March 2004

(In Singapore dollars)

### 28. EMPLOYEE BENEFITS - SHARE OPTIONS (cont'd)

#### Subsidiary company

The MTQ Subsea Technology Pte Ltd Share Option Scheme for executive directors and senior executives for MTQ Subsea Technology Pte Ltd was approved on 21 June 2000.

|                                | NO. OF<br>OPTIONS<br>2004 | WEIGHTED<br>AVERAGE<br>EXERCISE PRICE<br>PER SHARE AS AT<br>31.3.2004 | NO. OF<br>OPTIONS<br>2003 | WEIGHTED<br>AVERAGE<br>EXERCISE PRICE<br>PER SHARE AS AT<br>31.3.2003 |
|--------------------------------|---------------------------|---|---------------------------|---|
| At beginning of financial year | 675,000                   | \$1.20  | 675,000                   | \$1.10  |
| Granted                        | –                         | –   | –                         | –   |
| Exercised                      | (36,380)                  | \$1.20  | –                         | –   |
| Cancelled                      | (225,000)                 | \$1.20  | –                         | –   |
| At end of financial year       | 413,620                   | \$1.20  | 675,000                   | \$1.10  |

The following table summarises information about options outstanding and exercisable as at 31 March 2004 to subscribe for ordinary shares of \$1 each in the subsidiary company :

| DATE OF<br>GRANT | NO. OF<br>OPTIONS<br>OUTSTANDING | EXERCISE<br>PRICE PER<br>SHARE | EXERCISE PERIOD |               | NO. OF<br>OPTIONS<br>EXERCISABLE |
|------------------|----------------------------------|--------------------------------|-----------------|---------------|----------------------------------|
|                  |                                  |                                | FROM            | TO            |                                  |
| 21 June 2000     | 45,000                           | \$1.00 - \$1.20                | 21 June 2000    | 21 June 2010  | 45,000                           |
| 1 July 2000      | 215,200                          | \$1.00 - \$1.20                | 1 July 2000     | 1 July 2010   | 215,200                          |
| 10 July 2000     | 74,740                           | \$1.00 - \$1.20                | 10 July 2000    | 10 July 2010  | 74,740                           |
| 1 August 2000    | 78,680                           | \$1.00 - \$1.20                | 1 August 2000   | 1 August 2010 | 78,680                           |
|                  | 413,620                          |                                |                 |               | 413,620                          |

### 29. RELATED PARTY TRANSACTIONS

During the financial year, a Director of a subsidiary company purchased a motor vehicle from the subsidiary company for £8,500 (approximately \$26,000). The net book value at the date of disposal was £10,838 (approximately \$34,000).

Apart from the above and those disclosed in the financial statements, there are no other significant related party transactions.

## Notes to the Financial Statements

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### 30. DISCONTINUING OPERATIONS

#### *Sale of marine repair services and trading of marine spare parts business*

On 20 May 2002, the Group's wholly-owned subsidiary company, MTQ Engineering Pte Ltd, completed the sale of its assets relating to the marine repair services and trading of marine spare parts business ("Assets") to Ciserv Singapore Pte Ltd ("Ciserv") for a consideration, net of costs of \$4,804,000.

Concurrently, the Company had also sold its property at 27 Gul Drive, Singapore 629475 which housed the marine repair services and trading of marine spare parts business to Ciserv for a consideration, net of costs, of \$2,994,000.

The carrying amount of the net assets disposed of at the date of disposal in 2003 were as follows :

|                   | GROUP<br>\$'000 | COMPANY<br>\$'000 |
|-------------------|-----------------|-------------------|
| Total assets      | 4,419           | 1,876             |
| Total liabilities | (105)           | -                 |
| Net assets        | 4,314           | 1,876             |

The net cash flows attributable to the marine repair services and trading of marine spare parts operation were as follows :

|                       | GROUP<br>2003<br>\$'000 |
|-----------------------|-------------------------|
| Operating             | 1,045                   |
| Financing             | 2                       |
| Net cash flow inflows | 1,047                   |

The entire net consideration of \$7,798,000 for the above sale of Assets has been received in full in 2003.

## Notes to the Financial Statements

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(In Singapore dollars)

### 31. SUBSEQUENT EVENTS

#### ***Private placement of 15,871,000 new ordinary shares of \$0.25 each***

Subsequent to the end of the financial year, on 13 April 2004, the Company completed a private placement of 15,871,000 new ordinary shares of \$0.25 each.

The placement shares rank pari passu in all respects with the existing ordinary shares of the Company. These shares were issued at \$0.40 each which represents a discount of approximately 6.43% from the weighted average price of the ordinary shares of the Company as traded on the SGX-ST on the full market day of 29 March 2004 until the trading of the Company's shares on the SGX-ST was halted on 30 March 2004 at 12.30pm. Net proceeds of \$6,270,000 from the placement will be used, where opportunities arise, for business expansion and investments by the Group and to increase working capital.

Pending the deployment of the net proceeds, such proceeds are currently placed as deposits with the Group's banker.

As at 31 March 2004, the issued and paid-up capital of the Company was \$19,887,250 divided into 79,549,000 ordinary shares of \$0.25 each in the capital of the Company. After the placement exercise, the share capital was increased to \$23,855,000 divided into 95,420,000 shares.

### 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

#### ***Interest rate risk***

Interest rate risk is the risk that changes in interest rate will have an adverse financial effect on the Group's financial conditions and/or results.

The Group's exposure to market risk for changes in interest rate environment relates mainly to its investment in financial products and debt obligations.

The investment in financial products are mainly short term in nature and they are not held or issued for trading or speculative purposes but were mainly placed in cash at bank, or fixed deposits which yield better returns than cash at bank.

The Group manages its interest rate exposure through active reviews of its debt portfolio, taking into account the nature of its underlying assets and the investment holding period. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve certain level of protection against rate hikes.

## Notes to the Financial Statements

(In Singapore dollars)

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### 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

#### **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient level of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group will raise optimal funding from both capital markets and financial institutions.

#### **Foreign currency risk**

Foreign currency risk arises from a change in foreign currency exchange rate which may have adverse effects on the Group in the current reporting period and in future years.

The Group is exposed to foreign currency exchange fluctuations mainly in Australian dollars, Euros, Sterling pounds and US dollars.

The Group, where appropriate, will enter into forward foreign exchange contracts to hedge against its foreign exchange risk in anticipated purchase or sale transactions denominated in foreign currencies.

Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level. In relation to its overseas investments in its foreign subsidiary companies whose net assets are exposed to currency translation risk and which are held for long term investment purposes, the differences arising from such translation are captured under the foreign currency translation reserve. These translation differences are reviewed and monitored on a regular basis.

#### **Credit risk**

Credit risk is the risk that companies and other parties will be unable to meet their obligations to the Group resulting in financial loss to the Group.

It is the Group's policy to enter into financial instruments with creditworthy counterparties. Surplus funds are placed with reputable financial institutions.

The trade and other receivables represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk. The Group has no significant concentration of credit risk.

## Notes to the Financial Statements

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(In Singapore dollars)

### 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

#### ***Fair values***

The carrying amounts of trade and other receivables, cash and cash equivalents, trade and other payables and short term borrowings approximate their fair values due to their short term nature.

The carrying amounts of long term unquoted equity investments are stated at cost, net of provision for diminution. The fair values of these investments are expected to be above their carrying amounts.

The carrying amount of long term borrowings approximates their fair values as these instruments bear interest at floating rates.

### 33. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

### 34. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements of MTQ Corporation Limited and its subsidiary companies for the financial year ended 31 March 2004 were authorised for issue in accordance with a resolution of the Directors on 24 May 2004.

## Corporate Information

### BOARD OF DIRECTORS

Kuah Kok Kim  
(Chairman & CEO)

Philip Eng Heng Nee  
(Director)

Huang Yuan Chiang  
(Director)

Ong Choo Eng  
(Director)

Samuel Bernard Sassoon  
(Director)

Ian Wayne Spence  
(Director)

### AUDIT COMMITTEE

Ian Wayne Spence (Chairman)  
Philip Eng Heng Nee  
Huang Yuan Chiang  
Ong Choo Eng

### REMUNERATION COMMITTEE

Philip Eng Heng Nee (Chairman)  
Ian Wayne Spence  
Ong Choo Eng  
Huang Yuan Chiang

### JOINT COMPANY SECRETAIRES

Fong Choon Seng  
Shirley Lim

### REGISTERED OFFICE

182 Pandan Loop  
Singapore 128373  
Telephone : 6777 7651  
Facsimile : 6777 6433  
Website : [www.mtq.com.sg](http://www.mtq.com.sg)

### AUDITOR

Ernst & Young  
Certified Public Accountants  
10 Collyer Quay #21-01  
Ocean Building  
Singapore 049315

Partner-in-charge :  
Ee Hock Kim, Gerard

Appointed on : 05.07.2002

### REGISTRAR

B.A.C.S Private Limited  
63 Cantonment Road  
Singapore 089758  
Telephone : 6323 6200  
Facsimile : 6323 6990  
E-mail : [bacs@pacific.net.sg](mailto:bacs@pacific.net.sg)

### PRINCIPAL BANKERS

Overseas-Chinese Banking  
Corporation Limited

United Overseas Bank Limited

Rates  
RISK RATE

- 7.0%
- 6.5%
- 6.0%
- 5%

**ASIAN YIELDS**  
(% point over U.S. Treasury)

|      |          |          |   |
|------|----------|----------|---|
| 1.4% | 18397.57 | 13596.63 | - |
| 1.4% | 1066.18  | 483.58   | - |
| 1.5% | 2582.94  | 1782.43  | - |

## Investor Relations

### COMMITMENT TO OUR SHAREHOLDERS

Open and timely communications with our shareholders and investors remained the core emphasis of the Group's investor relations (IR) efforts for FY2004.

**Quarterly reporting** - This commitment to greater transparency saw the Group upkeeping voluntary quarterly announcements of its results.

To supplement disclosures required under the SGX-ST announcement template, the Group prepared quarterly news releases which seek to discuss, in more investor-friendly fashion, impact of various external and internal influences surrounding the Group's performance and outlook.

**Interactive communication** - Periodical briefings are conducted with local analysts and media to help them understand the Group's key developments during the period under review. Meetings are also held at the request of analysts or existing/potential investors at the Group's premise where they are invited on site tours of our operations to understand our businesses better. These are attended by our CEO, various Directors and our Group Financial Controller, and provide an effective platform for interactive discussion on various issues.

The Group also held an open house for business associates, investors and analysts to showcase new engineering capabilities within its oilfield engineering workshop in August 2003.

**Continuous update** - Various channels have been put in place over the last two years to provide greater accessibility to regular updates on the Group's developments apart from information which are disseminated via SGX-ST's MASNET. These include the despatch of bi-annual newsletters to our shareholders and regular updates to our corporate website, [www.mtq.com.sg](http://www.mtq.com.sg).

Recognising the inherent difficulties in procuring meaningful research coverage in view of its relative size, the Group also participated in the SGX-MAS Research Incentive Scheme under which two research firms are assigned to provide at least 2 detailed research reports on the Group annually. The Group is currently working closely with the assigned research houses to provide shareholders and investors with an in-depth analysis of the Group.

Maintaining corporate transparency and effective communication with shareholders will continue to be key importance under the Group's IR policy. While working on these IR initiatives, MTQ Group will also continue to maintain active compliance with the SGX-ST's guidelines on fair disclosure.



*An open house held within oilfield engineering workshop to showcase new engineering capabilities.*

## Financial Calendar

|                 |   |
|-----------------|---|
| 14 April 2003   | Extraordinary General Meeting                                   |
| 30 April 2003   | Announcement of FY2003 results                                  |
| 4 June 2003     | Release of Annual Report 2003 to shareholders                   |
| 20 June 2003    | 34th Annual General Meeting                                     |
| 10 July 2003    | Payment of final dividend of 6% less tax in respect of FY2003   |
| 31 July 2003    | Announcement of first quarter FY2004 results                    |
| 31 October 2003 | Announcement of half year FY2004 results                        |
| 31 October 2003 | Business briefing on half year FY2004 results                   |
| 3 December 2003 | Payment of interim dividend of 4% less tax in respect of FY2004 |
| 29 January 2004 | Announcement of third quarter FY2004 results                    |
| 29 April 2004   | Announcement of FY2004 results                                  |
| 29 April 2004   | Business briefing on FY2004 results                             |
| 10 June 2004    | Release of Annual Report 2004 to shareholders                   |
| 2 July 2004     | 35th Annual General Meeting                                     |
| 22 July 2004    | Payment of final dividend of 6% less tax in respect of FY2004*  |

\* subject to shareholders' approval at the forthcoming Annual General Meeting

## Directory of Subsidiaries and Associate

### MTQ CORPORATION LIMITED

182 Pandan Loop  
Singapore 128373  
Tel : (65) 6777 7651  
Fax : (65) 6777 6433  
Website : www.mtq.com.sg  
Contact : Kuah Kok Kim, Chairman & CEO  
William Fong, Group Financial Controller  
Email : kkkuah@mtq.com.sg  
williamfong@mtq.com.sg

### MTQ ENGINEERING PTE LTD

182 Pandan Loop  
Singapore 128373  
Tel : (65) 6777 7651  
Fax : (65) 6779 4092  
Website : www.mtq.com.sg  
Contact : Peter Lock, Managing Director  
Email : peterlock@mtq.com.sg

### MTQ SUBSEA TECHNOLOGY PTE LTD

182 Pandan Loop  
Singapore 128373  
Tel : (65) 6872 8966  
Fax : (65) 6777 6433  
Website : www.mtq.com.sg  
Contact : Samuel Sassoon, Managing Director  
Email : samsas@mtqsubsea.com.sg

### MTQ ENGINE SYSTEMS (AUST) PTY LTD

32 Raynham Street,  
Salisbury, Qld 4107  
Australia  
Tel : +(61 7) 3274 3755  
Fax : +(61 7) 3274 4514  
Website : www.mtqes.com.au  
Contact : Bill Ward, CEO  
Steve King, General Manager  
Email : rw.ward@mtqes.com.au  
steve.king@mtqes.com.au

### PT MTQ ENGINE SYSTEMS INDONESIA

Jl. Raya Manukan Kulon 60 (Komp. Pergudangan) Blok D - 9,  
Manukan Kulon, Tandes, Surabaya 60185  
East Java - Indonesia  
Tel : +(62) 31 744 2258  
Fax : +(62) 31 744 2259  
Website : -  
Contact : Garry Swainson, Director  
Email : garry\_s@indo.net.id

### RCR TOMLINSON LTD

239 Planet Street  
Welshpool WA 6106  
Australia  
Tel : +(61 8) 9355 8100  
Fax : +(61 8) 9361 0724  
Website : www.rcrtom.com.au  
Contact : John Linden, Managing Director  
Email : jlinden@rcrtom.com.au

## Statistics of Shareholdings

As at 18 May 2004

|                                  |   |  |
|----------------------------------|---|--|
| Authorised Share Capital         | : | 120,000,000 Ordinary Shares of \$0.25 each |
| Issued and Fully Paid-up Capital | : | 95,445,000 Ordinary Shares of \$0.25 each  |
| Voting Rights                    | : | One Vote Per Share                         |

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | %      | NO. OF SHARES | %      |
|-----------------------|---------------------|--------|---------------|--------|
| 1 - 999               | 9                   | 0.80   | 3,932         | 0.00   |
| 1,000 - 10,000        | 837                 | 74.87  | 4,080,924     | 4.28   |
| 10,001 - 1,000,000    | 260                 | 23.26  | 13,235,492    | 13.87  |
| 1,000,001 and above   | 12                  | 1.07   | 78,124,652    | 81.85  |
| Total                 | 1,118               | 100.00 | 95,445,000    | 100.00 |

### TOP TWENTY SHAREHOLDERS

|   | NO. OF SHARES | %     |
|---|---------------|-------|
| HSBC (Singapore) Nominees Pte Ltd             | 22,715,000    | 23.80 |
| Kurt R M Lindblad                             | 17,887,652    | 18.74 |
| UOB Kay Hian Pte Ltd                          | 11,473,000    | 12.02 |
| Tai Tak Securities Pte Ltd                    | 7,900,000     | 8.28  |
| Singapore Warehouse Company (Private) Limited | 5,500,000     | 5.76  |
| DBS Nominees Pte Ltd                          | 2,773,000     | 2.91  |
| United Overseas Bank Nominees Pte Ltd         | 2,670,000     | 2.80  |
| Citibank Nominees Singapore Pte Ltd           | 2,451,000     | 2.57  |
| Francis James Reidy                           | 1,375,000     | 1.44  |
| OCBC Securities Private Limited               | 1,217,000     | 1.28  |
| Oversea Chinese Bank Nominees Pte Ltd         | 1,101,000     | 1.15  |
| Tan Kah Boh Robert                            | 1,062,000     | 1.11  |
| Keppel Investment Ltd                         | 850,000       | 0.89  |
| Raffles Nominees Pte Ltd                      | 695,000       | 0.73  |
| Phillip Securities Pte Ltd                    | 535,000       | 0.56  |
| Lock Hong Cheong                              | 522,492       | 0.55  |
| Wong Peng Onn                                 | 471,000       | 0.49  |
| David Robertson Moody                         | 456,000       | 0.48  |
| Ng Siew Luan                                  | 330,000       | 0.35  |
| Lim Chye Huat @ Bobby Lim Chye Huat           | 329,000       | 0.34  |
| Total   | 82,313,144    | 86.25 |

## Statistics of Shareholdings

As at 18 May 2004

### SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

|  | DIRECT INTEREST  |       | DEEMED INTEREST  |       |
|--|------------------|-------|------------------|-------|
|  | NO. OF<br>SHARES | %     | NO. OF<br>SHARES | %     |
| Kuah Kok Kim                                     | 159,000          | 0.17  | 18,734,000       | 19.63 |
| Kurt R M Lindblad                                | 17,887,652       | 18.74 | –                | –     |
| Tai Tak Securities Pte Ltd                       | 7,900,000        | 8.28  | –                | –     |
| Singapore Warehouse Company<br>(Private) Limited | 5,500,000        | 5.76  | –                | –     |
| Hwa Hong Corporation Limited #                   | –                | –     | 5,500,000        | 5.76  |
| Ong Holdings (Private) Limited +                 | –                | –     | 5,000,000        | 5.76  |

#### NOTES:

# Singapore Warehouse Company (Private) Limited is a wholly-owned subsidiary company of Hwa Hong Corporation Limited.

+ By virtue that Ong Holdings (Private) Limited holds not less than 20% shares in Hwa Hong Corporation Limited.

As at 18 May 2004, 43.33% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 35th Annual General Meeting of the Company will be held at Carlton Hotel, Connaught Room, Level 2, Singapore 189558 on Friday, 2 July 2004 at 10.00 a.m. for the following purposes:

### AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the year ended 31 March 2004 together with the Auditors' Report thereon. **(Resolution 1)**
2. To declare a final dividend of 6% less tax (\$0.015 per ordinary share less tax) for the year ended 31 March 2004. **(Resolution 2)**
3. To re-elect the following Directors retiring pursuant to Article 91 of the Company's Articles of Association:-
 

|                           |                       |
|---------------------------|-----------------------|
| Mr Philip Eng Heng Nee    | <b>(Resolution 3)</b> |
| Mr Samuel Bernard Sassoon | <b>(Resolution 4)</b> |

Mr Philip Eng Heng Nee, a non-executive director, will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.
4. To re-appoint Ernst & Young as auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 5)**
5. To transact any other business that may be transacted at an Annual General Meeting.

### AS SPECIAL BUSINESS

6. To approve the payment of directors' fees of \$165,000 for the year ending 31 March 2005, to be paid quarterly in arrears. [See Explanatory note (i)] **(Resolution 6)**

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without modifications:

7. **Authority to allot and issue shares up to 50 per centum (50%) of issued capital**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be empowered to allot and issue shares in the capital of the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be allotted and issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the issued share capital of the Company at the time of passing of this resolution, of which the aggregate number of shares to be issued other than on a pro-rata basis to all shareholders of the Company shall not exceed twenty per centum (20%) of the issued share capital of the Company and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note (ii)]

**(Resolution 7)**

## Notice of Annual General Meeting

### 8. Authority to allot and issue shares under The MTQ Corporation Executives' Share Option Scheme 2003

That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors be authorised and empowered to allot and issue shares in the capital of the Company to all the holders of options granted by the Company, whether granted during the subsistence of this authority or otherwise, under The MTQ Corporation Executives' Share Option Scheme 2003 ("the Scheme") upon the exercise of such options and in accordance with the terms and conditions of the Scheme, provided always that the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the issued share capital of the Company for the time being. [See Explanatory Note (iii)] **(Resolution 8)**

By Order of the Board

Fong Choon Seng  
Shirley Lim  
Joint Company Secretaries

Singapore  
10 June 2004

#### EXPLANATORY NOTES:

- (i) The Ordinary Resolution 6 proposed under item 6, if passed, will authorise the Directors of the Company to pay directors' fees for the year ending 31 March 2005 to Directors quarterly in arrears.
- (ii) The Ordinary Resolution 7 proposed in item 7 above, if passed, will empower the Directors from the date of the above meeting until the date of the next Annual General Meeting, to allot and issue shares in the Company. The number of shares that the Directors may allot and issue under this Resolution would not exceed fifty per centum (50%) of the issued capital of the Company at the time of passing this resolution. For issue of shares other than on a pro-rata basis to all shareholders, the aggregate number of shares to be issued shall not exceed twenty per centum (20%) of the issued capital of the Company.
- The percentage of issued capital is based on the Company's issued capital after adjusting for new shares arising from the exercise of employee share options in issue at the time the proposed Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.
- (iii) The Ordinary Resolution 8 proposed in item 8 above, if passed, will empower the Directors of the Company, from the date of the above meeting until the next Annual General Meeting, to allot and issue shares in the Company of up to a number not exceeding in total fifteen per centum (15%) of the issued share capital of the Company for the time being pursuant to the exercise of the options under the Scheme.

#### NOTES:

A member of the Company entitled to attend and vote may appoint a proxy or proxies to attend and vote in his place. A Proxy need not be a member of the Company.

A member of the Company which is a corporation is entitled to appoint its authorised representative or proxy to vote on its behalf.

The instrument appointing a proxy or proxies must be deposited at 182 Pandan Loop, Singapore 128373, not less than 48 hours before the time fixed for the holding of the meeting.

# MTQ Corporation Limited

(Incorporated in the Republic of Singapore)

## Proxy Form

(Please see notes overleaf before completing this form)

I/We \_\_\_\_\_

of \_\_\_\_\_

being a member/members of MTQ Corporation Limited (the "Company"), hereby appoint \_\_\_\_\_

of \_\_\_\_\_

or, failing him/her, \_\_\_\_\_

of \_\_\_\_\_

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the 35th Annual General Meeting (the "Meeting") of the Company to be held at Carlton Hotel, Connaught Room, Level 2, Singapore 189558 on Friday, 2 July 2004 at 10.00 a.m. and at any adjournment thereof. The Proxy is to vote on the business before the meeting as indicated below. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her discretion, as he/she will on any other matter arising at the Meeting:

| NO. | RESOLUTIONS RELATING TO:   | FOR | AGAINST |
|-----|--|-----|---------|
| 1   | Directors' Report and Accounts for the year ended 31 March 2004                                    |     |         |
| 2   | Declaration of a final dividend  |     |         |
| 3   | Re-election of Mr Philip Eng Heng Nee as a Director  |     |         |
| 4   | Re-election of Mr Samuel Bernard Sassoon as a Director   |     |         |
| 5   | Re-appointment of Ernst & Young as Auditors  |     |         |
| 6   | Approval of Directors' fees for the year ended 31 March 2005                                       |     |         |
| 7   | Authority to allot and issue new shares  |     |         |
| 8   | Authority to allot and issue shares under The MTQ Corporation Executives' Share Option Scheme 2003 |     |         |

(Please indicate with a cross [X] in the boxes provided above whether you wish your vote to be cast for or against the Resolutions as set out in the Notice of the Meeting.)

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2004

| TOTAL NUMBER OF SHARES IN | NO. OF SHARES |
|---------------------------|---------------|
| (a) CDP Register          |               |
| (b) Register of Members   |               |

\_\_\_\_\_  
Signature of Shareholder(s)/  
Common Seal of Corporate Shareholder

**NOTES:**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint a proxy or proxies to attend and vote instead of him/her. A proxy need not be a member of the Company.
3. Where a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy. If no such proportion or number is specified, the first named proxy shall be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named proxy.
4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 182 Pandan Loop, Singapore 128373 not less than 48 hours before the time appointed for the Annual General Meeting.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

Fold here

**GENERAL:**

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

Fold here

Affix  
Postage  
Stamp

The Company Secretary  
**MTQ Corporation Limited**  
182 Pandan Loop  
Singapore 128373

Fold along this line and glue overleaf

# MTQ Corporation Limited

(Incorporated in the Republic of Singapore)

## Survey Form

We hope you have enjoyed reading our Annual Report 2003/2004. We will strive to continuously improve our future annual reports in terms of disclosure and presentation. We would appreciate it if you could take a few minutes to give us your views, via fax (65 6777 6433) or mail, on this annual report by completing this survey.

Mailing address : **MTQ Corporation Limited**  
182 Pandan Loop Singapore 128373

Rankings 1=Strongly Disagree; 2=Disagree; 3=Neutral; 4=Agree; 5=Strongly Agree

|    | <b>CONTENTS</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
|----|--|----------|----------|----------|----------|----------|
| 1  | The contents of annual report are useful and meet my information needs.  |          |          |          |          |          |
| 2  | The financial information provided is sufficient for me to have a reasonable understanding of MTQ's financial performance. |          |          |          |          |          |
| 3  | The business review and other information provide a good insight into MTQ's core businesses.                               |          |          |          |          |          |
| 4  | The corporate governance (CG) report provides significant disclosure on MTQ's CG policies and practices.                   |          |          |          |          |          |
|    | <b>PRESENTATION</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 5  | The design of the annual report is creative and attractive.  |          |          |          |          |          |
| 6  | The contents are laid out in a logical and easy-to-refer order.  |          |          |          |          |          |
| 7  | The size of the annual report is user-friendly.  |          |          |          |          |          |
| 8  | The typeface (size of letters) is easy to read.  |          |          |          |          |          |
|    | <b>OVERALL IMPRESSION</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 9  | The annual report reflects the stature of a regional Group.  |          |          |          |          |          |
|    | <b>OTHER INFORMATION</b>   |          |          |          |          |          |
| 10 | What other information (financial or non-financial) would you like to be included in our next annual report?               |          |          |          |          |          |
| 11 | Do you have any suggestions for our next annual report?<br>Content:  |          |          |          |          |          |
|    | Presentation:  |          |          |          |          |          |
|    | Overall:   |          |          |          |          |          |
| 12 | (Please circle)<br>I am a: Shareholder / Financial analyst / Accountant / Journalist / Staff / Customer / Others:          |          |          |          |          |          |

— Fold here —

— Fold here —

Affix  
Postage  
Stamp

The Company Secretary  
**MTQ Corporation Limited**  
182 Pandan Loop  
Singapore 128373

— Fold along this line and glue overleaf —