Company Registration No. 200210647W
Charity No. 01658

Arts House Ltd and its subsidiary

Annual Financial Statements
31 March 2015

EY
Building a better
working world

Arts House Ltd and its subsidiary

General information

Chief Executive Officers

Lee Chor Lin	(Chief Executive Officer)
Desirene Ho Lei Ming	(Assistant Chief Executive Officer)
Tan Tee Tong	(Deputy Chief Executive Officer) (Resigned on 16 June 2014)

Directors

Gan Christine	(Chairman)
Chong Yuan Chien	
Koh Choon Fah	
Lee Chor Lin	
Mok Wei Wei	
Ong Chao Choon	
Tan Kim Liang Paul	
Mary Ann Wai Sheng Tsao	(Appointed 31 August 2015)
Ho Nyuk Choo Deborah Joanne	(Appointed 14 April 2014)
Tham Kwang Hsueh Yvonne	(Resigned on 12 August 2015)
Colin Goh	(Resigned on 31 July 2014)
Jennie Chua Kheng Yeng	(Resigned on 1 April 2014)

Company secretary

Helen Campos

Registered office

1 Old Parliament Lane
Singapore 179429

Auditor

Ernst & Young LLP

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Directors' report

The directors hereby present their report to the members together with the audited consolidated financial statements of Arts House Ltd (the "Company") and its subsidiary (collectively, the "Group") and the balance sheet, statement of comprehensive income and statement of changes in accumulated funds of the Company for the financial year ended 31 March 2015.

Directors

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

Gan Christine
Chong Yuan Chien
Ho Nyuk Choo Deborah Joanne
Koh Choon Fah
Lee Chor Lin
Mary Ann Wai Sheng Tsao
Mok Wei Wei
Ong Chao Choon
Tan Kim Liang Paul

As the Company is limited by guarantee, the board of directors does not consider it necessary to report on the matters to be disclosed under Section 201(6) (f) and (g) of the Singapore Companies Act, Chapter 50.

Directors' conflict of interest policy

The Company has a conflict of interest policy. The Company requires that members of the board to comply with the policy and fully disclose to the board immediately when a conflict of interest situation arises.

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 reason 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.

Auditor

Ernst & Young LLP have expressed their willingness to accept reappointment as auditor.

On behalf of the board of directors:

Gan Christine
Director

Lee Chor Lin
Director

Singapore
15 September 2015

Statement by directors

We, Gan Christine and Lee Chor Lin, being two of the directors of Arts House Ltd, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, statements of comprehensive income, statements of changes in accumulated funds and the consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2015 and the results of the business, changes in accumulated funds and cash flows of the Group and the changes in accumulated funds of the Company for the financial year ended on that date, and

(ii) 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 of directors:

Gan Christine
Director

Lee Chor Lin
Director

Singapore
15 September 2015

Independent auditor's report to the members of Arts House Ltd

Report on the financial statements

We have audited the accompanying financial statements of Arts House Ltd (the "Company") and its subsidiary (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 March 2015, the statements of comprehensive income and statements of changes in accumulated funds of the Group and the Company and the consolidated cash flow statement of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act"), the Charities Act, Chapter 37 (the "Charities Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditor's responsibility

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

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

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

Independent auditor's report to the members of Arts House Ltd

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet, statement of comprehensive income and statement of changes in accumulated funds of the Company are properly drawn up in accordance with the provisions of the Act, the Charities Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2015 and of the financial performance and, changes in accumulated funds of the Group and Company and cash flows of the Group for the financial year ended on that date.

Report on other legal and regulatory requirements

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

During the course of our audit, nothing has come to our attention that causes us to believe that during the financial year:

(a) The use of the donation moneys was not in accordance with the objectives of the Company as required under regulation 16 of the Charities (Institutions of a Public Character) Regulations; and

(b) The Company has not complied with the requirements of regulation 15 (Fund-raising expenses) of the Charities (Institutions of a Public Character) Regulations.

Ernst & Young LLP

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

15 September 2015

Balance sheets
As at 31 March 2015

	Note	Group 2015 $	Group 2014 $	Company 2015 $	Company 2014 $
Non-current assets					
Equipment	4	255,883	226,318	255,883	226,318
Investment in subsidiary	5	–	–	–	–
		255,883	226,318	255,883	226,318
Current assets					
Inventories		–	27,570	–	27,570
Trade and other receivables	6	488,479	810,498	488,479	810,498
Prepaid operating expenses		316,601	31,031	316,601	31,031
Cash and cash equivalents	7	9,365,128	2,390,904	9,365,128	2,380,343
		10,170,208	3,260,003	10,170,208	3,249,442
Current liabilities					
Trade and other payables	8	2,711,124	1,557,839	2,711,124	1,556,710
Unearned revenue	9	207,106	283,005	207,106	283,005
Deferred capital grant	10	9,800	9,800	9,800	9,800
Grant received in advance	11	480,000	–	480,000	–
		3,408,030	1,850,644	3,408,030	1,849,515
Net current assets		6,762,178	1,409,359	6,762,178	1,399,927
Non-current liability					
Deferred capital grant	10	68,600	78,400	68,600	78,400
		68,600	78,400	68,600	78,400
Net assets		6,949,461	1,557,277	6,949,461	1,547,845
Equity					
General funds	24	6,949,461	1,557,277	6,949,461	1,547,845
Accumulated surplus		6,949,461	1,557,277	6,949,461	1,547,845

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

Statements of comprehensive income
For the financial year ended 31 March 2015

	Note	Group 2015 $	Group 2014 $	Company 2015 $	Company 2014 $
Income					
International programming income		–	19,134	–	19,134
Venue hire and event services		1,608,804	1,535,549	1,608,804	1,535,549
Sales of tickets		597,896	175,999	597,896	175,999
Sponsorships, contributions and donations - tax - exempt receipts		169,000	181,290	169,000	181,290
Sponsorships, contributions and donations - non-tax – exempt receipts		378,445	290,452	378,445	290,452
Income from fund raising event		–	1,164,737	–	1,164,737
Rental income		2,602,279	2,519,696	2,602,279	2,519,696
Other income	12	389,841	630,244	399,056	642,362
Interest income		2,211	9,977	2,211	9,977
Management fee income		124,605	219,528	124,605	219,528
Total income		5,873,081	6,746,606	5,882,296	6,758,724
Expenditure					
Depreciation of equipment	4	(124,179)	(85,657)	(124,179)	(85,657)
Art programming expenses	13	(6,127,218)	(743,508)	(6,127,218)	(743,508)
Venue hire cost		(43,656)	(65,264)	(43,656)	(65,264)
Marketing and publicity expenses	13	(1,121,496)	(173,151)	(1,121,496)	(173,151)
Rental of building		(1,134,744)	(1,134,744)	(1,134,744)	(1,134,744)
Staff and related expenses	14	(4,160,166)	(4,044,510)	(4,160,166)	(4,044,510)
Property maintenance and utilities		(1,905,113)	(2,052,752)	(1,905,113)	(2,052,752)
Fund raising event expenses		–	(201,677)	–	(201,677)
Other operating expenditure	15	(1,131,474)	(1,268,462)	(1,131,257)	(1,280,232)
Total expenditure		(15,748,046)	(9,769,725)	(15,747,829)	(9,781,495)
Deficit before operating grants		(9,874,965)	(3,023,119)	(9,865,533)	(3,022,771)
Grants	16	15,055,068	3,394,121	15,055,068	3,394,121
Amortisation of deferred capital grant	10	9,800	9,800	9,800	9,800
Surplus after operating grants		5,189,903	380,802	5,199,335	381,150
Income tax expenses	17	–	–	–	–
Net surplus net of tax, representing total comprehensive income for the financial year		5,189,903	380,802	5,199,335	381,150

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

Statements of changes in accumulated funds
For the financial year ended 31 March 2015

	2015 $	2014 $
Group		
General fund		
Balance at beginning of the financial year	1,557,277	3,413,511
Net surplus for the financial year, representing total comprehensive income for the financial year	5,189,903	380,802
Funds transferred from Arts Festival Ltd (Note 19)	202,281	–
Budding Artists fund transferred to The Rice Company Limited (Note 18)	–	(2,218,011)
International Youth Artists Exchange fund transferred to The Rice Company Limited (Note 18)	–	(19,025)
Balance at end of the financial year	6,949,461	1,557,277
Company		
General fund		
Balance at beginning of the financial year	1,547,845	3,403,731
Net surplus for the financial year, representing total comprehensive income for the financial year	5,199,335	381,150
Funds transferred from Arts Festival Ltd (Note 19)	202,281	–
Budding Artists fund transferred to The Rice Company Limited (Note 18)	–	(2,218,011)
International Youth Artists Exchange fund transferred to The Rice Company Limited (Note 18)	–	(19,025)
Balance at end of the financial year	6,949,461	1,547,845

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

Consolidated cash flow statement
For the financial year ended 31 March 2015

Group	2015 $	2014 $
Operating activities		
Deficit before operating grants	(9,874,965)	(3,023,119)
Adjustments:		
Depreciation of equipment	124,179	85,657
Bad debts written off directly, net	12,479	3,097
Allowance for doubtful debts	6,172	54,226
Reversal of allowance for doubtful debts	(20,488)	(60,000)
Equipment written off	12,815	–
Allowance for impairment of inventories	27,570	–
Allowance for loss of consignment stock	20,000	–
Gain on liquidation of a subsidiary	(11,725)	–
Deficit before working capital changes	(9,703,963)	(2,940,139)
Increase in inventories	–	(19,046)
Decrease in trade and other receivables	323,856	780,531
Increase in prepaid operating expenses	(285,570)	(591,425)
Increase in trade and other payables	949,216	2,015,719
(Decrease)/increase in unearned revenue	(75,899)	46,782
Net cash flows used in operating activities	(8,792,360)	(707,578)
Investing activities		
Purchase of equipment	(142,456)	(187,594)
Cash transferred from Arts Festival Limited (Note 19)	362,247	–
Cash transferred to The Rice Company Limited (Note 18)	–	(4,097,572)
Proceeds from liquidation a subsidiary	11,725	–
Net cash flows generated from/(used in) investing activities	231,516	(4,285,166)
Financing activity		
Government grants received, representing net cash flows from financing activity	15,535,068	3,492,121
Net increase/(decrease) in cash and cash equivalents	6,974,224	(1,500,623)
Cash and cash equivalents at beginning of the financial year	2,390,904	3,891,527
Cash and cash equivalents at end of the financial year (Note 7)	9,365,128	2,390,904

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

1. Corporate information

Arts House Ltd (the "Company") is incorporated and domiciled in Singapore, limited by guarantee and does not have a share capital.

The Company has been registered as a Charity, Registration No. 01658 under the Charities Act, Chapter 37 of Singapore with effect from 24 February 2003. The registered office and principal place of business of the Company is located at 1 Old Parliament Lane Singapore 179429.

The principal activities of the Company are:

- To provide a venue for hire to artists, arts companies, government and corporations and to facilitate events for the same through technical support, marketing and publicity services;
- To identify, develop and present emerging artists;
- To produce and present highly accessible quality events with strong artistic value within a calendar of events which meets a variety of tastes; and
- To organise arts, film, culture or any other festivals promotion of the arts, including the Singapore International Festival of Arts, and to manage and develop lively arts precints, venues, facilities and other arts platforms that support and benefit arts practitioners, organisations and the surrounding communities.

The Company entered into Business Sales Agreement with The Rice Company Limited to transfer the business under the Budding Artists Fund and International Youth Artists Exchange ("IYAE") Fund (under General Fund) to The Rice Company Limited, which took effect on 31 March 2014. The balance sheets of the Company and the Group as at 31 March 2014 exclude the assets and liabilities relating to Budding Artists Fund and IYAE Fund. The effects of the transfers are disclosed in Note 18 to the financial statements.

On 1 April 2014, the Company acquired the business and all assets, and assumed all the liabilities of Arts Festival Ltd.

The principal activities of the subsidiary are disclosed in Note 5 to the financial statements.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The consolidated financial statements of the Group and the balance sheet, statement of comprehensive income and statement of changes in accumulated funds of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars ("SGD" or "$").

2. Summary of significant accounting policies (continued)

2.2 *Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards that are effective for annual periods beginning on or after 1 April 2014. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

2.3 *Standards issued but not yet effective*

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

Description	*Effective for annual periods beginning on or after*
Amendments to FRS 19 *Defined Benefit Plans: Employee Contributions*	1 July 2014
Improvements to FRSs (January 2014)	
(a) Amendments to FRS 102 *Share Based Payment*	1 July 2014
(b) Amendments to FRS 103 *Business Combinations*	1 July 2014
(c) Amendments to FRS 108 *Operating Segments*	1 July 2014
(d) Amendments to FRS 16 *Property, Plant and Equipment*	1 July 2014
(e) Amendments to FRS 24 *Related Party Disclosures*	1 July 2014
(f) Amendments to FRS 38 *Intangible Assets*	1 July 2014
Improvements to FRSs (February 2014)	
(a) Amendments to FRS 103 *Business Combinations*	1 July 2014
(b) Amendments to FRS 113 *Fair Value Measurement*	1 July 2014
(c) Amendments to FRS 40 *Investment Property*	1 July 2014
Amendments to FRS 1 *Disclosure Initiative*	1 January 2016
Amendments to FRS 16 and FRS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendments to FRS 16 and FRS 41 *Agriculture: Bearer Plants*	1 January 2016
Amendments to FRS 27 *Equity Method in Separate Financial Statements*	1 January 2016
Amendments to FRS 110 and FRS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2016
Amendments to FRS 110, FRS 112 and FRS 28 *Investment Entities: Applying the Consolidation Exception*	1 January 2016
Amendments to FRS 111 *Accounting for Acquisitions of Interests in Joint Operations*	1 January 2016
Improvements to FRSs (November 2014)	1 January 2016
(a) Amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*	1 January 2016
(b) Amendments to FRS 107 *Financial Instruments: Disclosures*	1 January 2016
(c) Amendments to FRS 19 *Employee Benefits*	1 January 2016
(d) Amendments to FRS 34 *Interim Financial Reporting*	1 January 2016
FRS 114 *Regulatory Deferral Accounts*	1 January 2016
FRS 115 *Revenue from Contracts with Customers*	1 January 2017
FRS 109 *Financial Instruments*	1 January 2018

2. Summary of significant accounting policies (continued)

2.3 *Standards issued but not yet effective (continued)*

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

<u>FRS 115 *Revenue from Contracts with Customers*</u>

FRS 115 was issued in November 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under FRS 115 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in FRS 115 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under FRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of FRS 115 and plans to adopt the new standard on the required effective date.

<u>FRS 109 *Financial Instruments*</u>

In December 2014, the Accounting Standards Council Singapore ("ASC") issued the FRS 109 Financial Instruments which reflects all phases of the financial instruments project and replaces FRS 39 Financial Instruments: Recognition and Measurement. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. FRS 109 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of FRS 109 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

2.4 *Basis of consolidation and business combinations*

(a) Basis of consolidation

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

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

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

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

2. Summary of significant accounting policies (continued)

2.4 *Basis of consolidation and business combinations (continued)*

(a) Basis of consolidation (continued)

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

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

(b) Business combinations

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another FRS.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

2. Summary of significant accounting policies (continued)

2.5 *Functional and foreign currency*

(a) Functional currency

The management has determined the currency of the primary economic environment in which the Group operates i.e., functional currency, to be SGD. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(b) Foreign currency transactions

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

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

2.6 *Equipment*

All items of equipment are initially recorded at cost. Subsequent to recognition, equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

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

Furniture and fittings	-	5 - 10 years
Office equipment	-	5 years
Electrical fittings, sound and light equipment	-	5 years
Computers	-	3 years

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

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

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

2. Summary of significant accounting policies (continued)

2.7 *Impairment of non-financial assets*

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in profit or loss, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.8 *Subsidiary*

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

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

2.9 *Financial instruments*

(a) Financial assets

Initial recognition and measurement

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

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

2. Summary of significant accounting policies (continued)

2.9 *Financial instruments (continued)*

(a) Financial assets (continued)

Subsequent measurement - loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Derecognition

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

(b) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement - financial liabilities at amortised cost

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

Derecognition

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

2. Summary of significant accounting policies (continued)

2.10 *Impairment of financial assets*

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

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

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

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

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

(b) Financial assets carried at cost

If there is objective evidence such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer that an impairment loss on financial assets carried at cost had been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2. Summary of significant accounting policies (continued)

2.11 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand and demand deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.12 *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 the amount of the obligation can be estimated reliably.

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

2.13 *Grants*

Grants received are from the government and its related agencies.

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

Government grants to meet the current period's operating expenses are recognised as income in the financial period in which the operating expenses are incurred.

Grants received from the National Arts Council for capital expenditure are taken to the deferred capital grants account upon the utilisation of the grants for purchase of equipment, which are capitalised, or to income or expenditure for purchase of equipment which are written off in the year of purchase.

Deferred capital grants are recognised as income over the periods necessary to match the depreciation, amortisation, write-off and/or impairment loss of the equipment purchased with the related grants. Upon the amortisation or disposal of equipment, the balance of the related deferred capital grants is recognised as income to match the carrying amount of the equipment disposed of.

2. Summary of significant accounting policies (continued)

2.14 *Employee benefits*

(a) Defined contribution plans

The Group makes contributions to the Central Provident Fund ("CPF") scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(b) Employee leave entitlement

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

2.15 *Leases*

(a) As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. 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 to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

(b) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.16(c) to the financial statements.