



Embry-Riddle Aeronautical University, Asia Ltd.
Registration Number: 200911992M

Annual Report
Year ended 30 June 2020



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Independent auditors' report

Members of the Company
Embry-Riddle Aeronautical University, Asia Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Embry-Riddle Aeronautical University, Asia Ltd. ('the Company'), which comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages FS1 to FS30.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ('the Act') and Financial Reporting Standards in Singapore ('FRSs') so as to give a true and fair view of the financial position of the Company as at 30 June 2020 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Basis for opinion

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

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report.

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



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

Responsibilities of management and directors for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

KPMG LLP

*Public Accountants and
Chartered Accountants*

Singapore

1 October 2020

Statement of financial position
As at 30 June 2020

	Note	2020 \$	2019 \$
Assets			
Plant and equipment	5	52,175	6,491
Right-of-use assets	21	187,097	–
Subsidiary	6	–	–
Non-current assets		239,272	6,491
Trade and other receivables	7	1,058,968	841,408
Prepayments		21,541	148,880
Cash and cash equivalents	8	1,618,430	1,712,410
Current assets		2,698,939	2,702,698
Total assets		2,938,211	2,709,189
Equity			
Accumulated losses		(116,114)	(895,134)
Total equity		(116,114)	(895,134)
Liabilities			
Lease liabilities	10	3,563	–
Non-current liabilities		3,563	–
Other payables	9	1,799,948	2,989,096
Lease liabilities	10	186,217	–
Provision	11	49,000	49,000
Deferred revenue	12	990,427	566,227
Provision for taxation		25,170	–
Current liabilities		3,050,762	3,604,323
Total liabilities		3,054,325	3,604,323
Total equity and liabilities		2,938,211	2,709,189

The accompanying notes form an integral part of these financial statements.

Statement of comprehensive income
Year ended 30 June 2020

	Note	2020 \$	2019 \$
Revenue	13	5,531,743	5,618,309
Interest income		1,167	209
Interest expense		(8,297)	–
Other income	14	182,156	103,975
Depreciation of plant and equipment	5	(17,979)	(5,376)
Depreciation of right-of-use assets	21	(219,722)	–
Employee benefits expense	15	(1,590,858)	(1,541,975)
Other operating expenses		<u>(3,074,020)</u>	<u>(3,237,948)</u>
Profit before tax	16	804,190	937,194
Tax expense	17	<u>(25,170)</u>	–
Profit for the year/Total comprehensive income for the year		<u>779,020</u>	<u>937,194</u>

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity
Year ended 30 June 2020

	Accumulated losses \$
At 1 July 2018	(1,832,328)
Total comprehensive income for the year	
Profit for the year	937,194
Total comprehensive income for the year	937,194
At 30 June 2019	(895,134)
At 1 July 2019	(895,134)
Total comprehensive income for the year	
Profit for the year	779,020
Total comprehensive income for the year	779,020
At 30 June 2020	(116,114)

The accompanying notes form an integral part of these financial statements.

Statement of cash flows
Year ended 30 June 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Profit before tax		804,190	937,194
Adjustments for:			
- bad debt written off		3,394	–
- depreciation of plant and equipment	5	17,979	5,376
- depreciation of right-of-use assets	21	219,722	–
- interest income		(1,167)	(209)
- interest expense		8,297	–
		1,052,415	942,361
Changes in:			
- trade and other receivables		(220,954)	(129,374)
- prepayments		127,339	(74,716)
- other payables		(1,189,148)	(368,014)
- deferred revenue		424,200	334,505
Net cash from operating activities		193,852	704,762
Cash flows from investing activities			
Interest income		1,167	209
Purchase of plant and equipment	5	(63,663)	(2,521)
Movement in fixed deposits pledged		(1,167)	(209)
Net cash used in investing activities		(63,663)	(2,521)
Cash flows from financing activities			
Interest paid		(8,297)	–
Payments for lease liabilities		(217,039)	–
Net cash used in financing activities		(225,336)	–
Net (decrease)/increase in cash and cash equivalents		(95,147)	702,241
Cash and cash equivalents at 1 July		1,607,632	905,391
Cash and cash equivalents at 30 June	8	1,512,485	1,607,632

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 1 October 2020.

1 Domicile and activities

Embry-Riddle Aeronautical University, Asia Ltd. ('the Company') is incorporated in the Republic of Singapore. The address of the Company's registered office is 75 Bukit Timah Road, #02-01/02, Boon Siew Building, Singapore 229833.

The principal activities of the Company are to provide teaching and research in the area of aeronautics and aerospace to tertiary institutions, regulatory agencies, and airlines.

The Company's member is Embry-Riddle Aeronautical University, Inc, a company incorporated in United States.

2 Going concern

As at 30 June 2020, the Company has a net liability position of \$116,114 (2019: \$895,134) and a net current liability position of \$351,823 (2019: \$901,625). Notwithstanding this, the financial statements have been prepared on a going concern basis as the member of the Company, Embry-Riddle Aeronautical University, Inc., has given an undertaking that it will continue to provide the Company with financial and other support as is necessary to continue operations and to meet its obligations for the next twelve months. Furthermore, the Company has reported net income for the year ended 30 June 2020 of \$779,020.

3 Basis of preparation

3.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (FRSs).

This is the first set of the Company's annual financial statements in which FRS 116 *Leases* has been applied. The related changes to significant accounting policies are described in note 3.5.

3.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

3.3 Functional and presentation currency

These financial statements are presented in Singapore dollars, which is the Company's functional currency.

3.4 Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and no assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

Further information about the assumptions made in measuring fair values is included in note 22.

3.5 Changes in accounting policies

New standards and amendments

The Company has applied the following FRS, amendments to and interpretations of FRS for the first time for the annual period beginning on 1 July 2019:

- FRS 116 *Leases*
- FRS INT 123 *Uncertainty over Income Tax Treatments*
- *Prepayment Features with Negative Compensation* (Amendments to FRS 109)
- *Income Tax Consequences of Payments on Financial Instruments Classified as Equity* (Amendments to FRS 12)
- *Borrowing Costs Eligible for Capitalisation* (Amendments to FRS 23)

Other than FRS 116, the application of these amendments to standards and interpretations does not have a material effect on the financial statements.

FRS 116 Leases

The Company applied FRS 116 using the modified retrospective approach, under which the Company recognises right-of-use assets at the date of initial application for leases previously classified as operating lease applying FRS 17 *Leases*. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under FRS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in FRS 116 have not generally been applied to comparative information.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under INT FRS 104 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in FRS 116.

On transition to FRS 116, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied FRS 116 only to contracts that were previously identified as leases. Contracts that were not identified as leases under FRS 17 and INT FRS 104 were not reassessed for whether there is a lease under FRS 116. Therefore, the definition of a lease under FRS 116 was applied only to contracts entered into or changed on or after 1 July 2019.

As a lessee

As a lessee, the Company leases office premise and office equipment. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under FRS 116, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of office premise, the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under FRS 17

Previously, the Company classified property leases as operating leases under FRS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the respective lessee entities incremental borrowing rates applicable to the leases as at 1 July 2019. Right-of-use assets are measured an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying FRS 116 to leases previously classified as operating leases under FRS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Impact on financial statements

*Impact on transition**

On transition to FRS 116, the Company recognised additional right-of-use assets, including investment property, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 July 2019 \$
Right-of-use assets	406,819
Lease liabilities	<u>(406,819)</u>

* For the impact of FRS 116 on profit or loss for the period, see Note 21. For the details of accounting policies under FRS 116 and FRS 17, see Note 4.12.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 2.88%.

	1 July 2019 \$
Operating lease commitments at 30 June 2019 as disclosed under FRS 17 in the Company's financial statements	<u>417,286</u>
Lease liabilities recognised at 1 July 2019 – Discounted using the incremental borrowing rate at 1 July 2019	<u>406,819</u>

4 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in note 3.5, which addresses changes in accounting policies.

4.1 Subsidiary

Subsidiary is an entity controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investment in subsidiary is stated in the Company's statement of financial position at cost less accumulated impairment losses. On disposal of the investment, the difference between the disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

4.2 Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognised in profit or loss.

4.3 Financial instruments

(i) Recognition and initial measurement

Non-derivative financial assets and financial liabilities

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Non-derivative financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company classifies its non-derivative financial assets as measured at amortised cost.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Non-derivative financial assets: Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Non-derivative financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost.

Other financial liabilities are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. These financial liabilities comprise other payables.

(iii) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and fixed deposits with banks which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents excludes any pledged deposits.

4.4 Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment, unless it is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Depreciation is recognised from the date that the plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years are as follows:

• Office equipment	3 years
• Computer equipment	3 years
• Renovation	6 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

4.5 Impairment

(i) Non-derivative financial assets

The Company recognises loss allowances for ECLs on financial assets measured at amortised costs.

Loss allowances of the Company are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset.

Simplified approach

The Company applies the simplified approach to provide for ECLs for all trade receivables. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

General approach

The Company applies the general approach to provide for ECLs on all other financial instruments. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Company assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of these assets.

Write-off

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

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

4.6 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

4.7 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the financial year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

4.8 Contract costs

Incremental costs of obtaining a contract are capitalised if these costs are recoverable. Costs incurred to fulfil a contract are capitalised only if the costs relate directly to the contract, generate or enhance resources used in satisfying future performance obligations, and are expected to be recovered. These costs are amortised consistently with the pattern of revenue for the related contract. Other costs are expensed as incurred. The Company has applied the practical expedient and recognised the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Company otherwise would have recognised is one year or less.

4.9 Revenue recognition

Tuition fees

Tuition fees is recognised when the Company satisfies a performance obligation (PO) by transferring control of a service to the customer. The amount of revenue recognised is the amount of the transaction price allocated to the satisfied PO.

The transaction price is allocated to each PO in the contract on the basis of the relative stand-alone selling prices of the promised services. A discount or variable consideration is allocated to one or more, but not all, of the performance obligations if it relates specifically to those performance obligations.

Transaction price is the amount of consideration in the contract to which the Company expects to be entitled in exchange for transferring the promised services.

Revenue is recognised over time following the timing of satisfaction of the PO.

4.10 Interest income and interest expense

Interest income or expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

4.11 Government grants

Government grants related to assets are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. These grants are then recognised in profit or loss as 'other income' on a systematic basis over the useful life of the asset. Grants that compensate the Company for expenses incurred are recognised in profit or loss as 'other income' on a systematic basis in the same periods in which the expenses are recognised.

4.12 Leases

The Company has applied FRS 116 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under FRS 17 and INT FRS 104. The details of accounting policies under FRS 17 and INT FRS 104 are disclosed separately.

Policy applicable from 1 July 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in FRS 116.

This policy is applied to contracts entered into, on or after 1 July 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease terms of right-of-use assets are as follows:

- Office premises 2 years
- Office equipment 3 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 July 2019

For contracts entered into before 1 July 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

4.13 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

4.14 New standards and interpretations not adopted

A number of new standards, interpretations and amendments to standards are effective for annual periods beginning after 1 July 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards and interpretations in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

5 Plant and equipment

	Office equipment \$	Computer equipment \$	Renovation \$	Total \$
Cost				
At 1 July 2018	13,635	83,242	377,808	474,685
Additions	1,370	1,151	–	2,521
At 30 June 2019	15,005	84,393	377,808	477,206
Additions	45,342	18,321	–	63,663
At 30 June 2020	60,347	102,714	377,808	540,869
Accumulated depreciation				
At 1 July 2018	6,498	81,033	377,808	465,339
Depreciation for the year	3,887	1,489	–	5,376
At 30 June 2019	10,385	82,522	377,808	470,715
Depreciation for the year	16,942	1,037	–	17,979
At 30 June 2020	27,327	83,559	377,808	488,694
Carrying amounts				
At 1 July 2018	7,137	2,209	–	9,346
At 30 June 2019	4,620	1,871	–	6,491
At 30 June 2020	33,020	19,155	–	52,175

6 Subsidiary

	2020 \$	2019 \$
Equity investments at cost	–	–

Details of the Company's subsidiary as at 30 June 2020 is as follows:

Name of subsidiary	Principal activities	Country of incorporation and operation	Ownership interest	
			2020 %	2019 %
ERAU Asia Institute, Ltd. ¹	Private Education Institute offering higher education programmes	Singapore	100	–

¹ ERAU Asia Institute, Ltd. is a company limited by guarantee and does not have share capital. The Company has undertaken to contribute to the assets of the subsidiary in the event of the same being wound up during the time the Company is a member, or within one year afterwards for payment of the debts and liabilities of the subsidiary contracted before the Company ceases to be a member, and the costs, charges and expenses of winding up the same, and for adjusting the rights of the contributors amongst themselves, such amount as may be required, not exceeding the sum of \$100.

Consolidated financial statements of the Company and its subsidiary have not been prepared as the Company is a wholly-owned subsidiary of the member, Embry-Riddle Aeronautical University, Inc., which prepares the consolidated financial statements.

7 Trade and other receivables

	2020	2019
	\$	\$
Trade receivables	882,848	732,267
Other receivables	–	1,641
Deposits	107,500	107,500
Grant receivables	68,620	–
	<u>1,058,968</u>	<u>841,408</u>

Grant receivables relate to the Job Support Scheme grant receivable from the government.

8 Cash and cash equivalents

	2020	2019
	\$	\$
Cash and bank balances	1,512,485	1,607,632
Fixed deposits 1	50,556	50,143
Fixed deposits 2	55,389	54,635
	<u>1,618,430</u>	<u>1,712,410</u>

The fixed deposits 1 are pledged to a bank as security for credit card facilities granted to the Company. The fixed deposits bear an interest rate of 0.05% to 1.40% (2019: 0.05% to 1.05%) per annum with maturity of 1 to 26 months (2019: 3 to 38 months) from the end of the reporting period.

The fixed deposits 2 are pledged to a bank as banker guarantee for the premises occupied on an operating lease agreement. This deposit bears interest rate of 0.15% to 1.40% (2019: 0.35%) per annum with maturity of 1 to 10 months (2019: 10 to 13 months) from the end of the reporting period.

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	2020	2019
	\$	\$
Cash and bank balances	1,512,485	1,607,632
Fixed deposits	105,945	104,778
	<u>1,618,430</u>	<u>1,712,410</u>
Fixed deposits pledged	(105,945)	(104,778)
Cash and cash equivalents in the statement of cash flows	<u>1,512,485</u>	<u>1,607,632</u>

9 Other payables

	2020	2019
	\$	\$
Third parties	154,066	92,442
Accrued operating expenses	176,774	223,512
Amounts due to member (non-trade)	1,393,853	2,673,142
Deferred grant income	75,255	–
	<u>1,799,948</u>	<u>2,989,096</u>

The non-trade amounts due to member are unsecured, interest free and repayable on demand.

10 Lease liabilities

	2020	2019
	\$	\$
Lease liabilities		
Non-current	3,563	–
Current	186,217	–
	189,780	–

Terms and conditions of lease liabilities are as follows:

	Nominal interest rate	Year of maturity	2020		2019	
			Face value \$	Carrying amount \$	Face value \$	Carrying amount \$
Lease liabilities	2.88%	2021-2022	191,950	189,780	–	–

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Lease liabilities \$
Balance at 1 July 2019	406,819
Changes from financing cash flows	
Interest paid	(8,297)
Payments for lease liabilities	(217,039)
Total changes from financing cash flows	(225,336)
Other changes	
Interest expense	8,297
Balance at 30 June 2020	189,780

11 Provision

Provision for reinstatement costs consists of estimated costs of dismantlement, removal or restoration of plant and equipment arising from the acquisition or use of assets, which are capitalised and included in the cost of plant and equipment.

12 Deferred revenue

Deferred revenue is the obligation to transfer teaching services to students for which the Company has received consideration (or an amount of consideration is due) from the students. If a student pays consideration before the Company transfers teaching services to the student, deferred revenue is recognised when the payment is made or the payment is due (whichever is earlier). Deferred revenue is recognised as revenue when the Company performs under the contract.

Significant changes in the deferred revenue balance during the period are as follows:

	2020	2019
	\$	\$
Revenue recognised that was included in the deferred revenue balance at the beginning of the year	566,227	231,722
Increases due to cash received, excluding amounts recognised as revenue during the year	<u>(990,427)</u>	<u>(566,227)</u>

13 Revenue

	2020	2019
	\$	\$
Tuition fees	<u>5,531,743</u>	<u>5,618,309</u>

Revenue is recognised, over the period teaching services are provided. Invoices are issued before the start of each school term and are payable within 30 days.

Transaction price allocated to the remaining performance obligations

As at 30 June 2020, \$7,363,042 (2019: \$9,492,361) will be recognised as revenue by reference to period teaching services are provided, which is expected to complete over the next three years.

14 Other income

	2020	2019
	\$	\$
Foreign exchange gain, net	–	24,385
Government grants	143,314	–
Others	38,842	79,590
	<u>182,156</u>	<u>103,975</u>

15 Employee benefits expense

	2020	2019
	\$	\$
Salaries, wages and other benefits	1,348,372	1,270,148
Contribution to defined contribution plan	144,773	112,659
Others	97,713	159,168
	<u>1,590,858</u>	<u>1,541,975</u>

The above employee benefits expense includes Director's remuneration as disclosed in note 20 to the financial statements.

16 Profit before tax

The following items have been included in arriving at profit before tax:

	2020	2019
	\$	\$
Advertising expenses	190,775	342,492
Entertainment expenses	1,999	4,575
Foreign exchange loss, net	80,094	–
Lecturers' expenses	567,201	573,667
Operating leases rental	–	225,336
Tuition fee commission	1,500,660	1,551,312
Travelling expenses	64,917	127,202
	<u>64,917</u>	<u>127,202</u>

17 Tax expense

	2020	2019
	\$	\$
Current tax expense		
Current year	<u>25,170</u>	–

Reconciliation of effective tax rate

Profit before tax	<u>804,190</u>	<u>937,194</u>
Tax calculated using the Singapore tax rate of 17% (2019: 17%)	136,712	159,323
Expenses not deductible for income tax purposes	19,344	2,323
Income not subject to income tax	–	(4,145)
Enhanced tax deduction	(17,425)	(2,084)
Utilisation of deferred tax assets previously not recognised	(113,461)	(156,401)
Others	–	984
	<u>25,170</u>	<u>–</u>

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2020	2019
	\$	\$
Deductible temporary differences	109,850	499,736
Tax losses	–	277,534
	<u>109,850</u>	<u>777,270</u>

The deferred tax assets have not been recognised as there is no certainty that there will be sufficient future taxable profits to realise these future benefits.

18 Operating lease commitments

At 30 June 2019, the Company had commitments of non-cancellable operating leases in respect of office premise and office equipment are as follows:

	2019
	\$
Future minimum lease payments payable:	
Within one year	225,336
After one year but within five years	191,950
	417,286

19 Member's guarantee

The member of the Company is Embry-Riddle Aeronautical University, Inc.

The Memorandum of Association of the Company provides that the liability of the Company's members is limited and every member of the Company undertakes to contribute to the assets of the Company in the event of the same being wound up during the time he is a member, or within one year afterwards for payment of the debts and liabilities of the Company contracted before he ceases to be a member, and the costs, charges and expenses of winding up the same, and for adjusting the rights of the contributors amongst themselves, such amount as may be required, not exceeding the sum of \$100.

20 Related party transaction

Key management personnel remuneration

The key management's remuneration includes fees, salary, bonus and other emoluments (including benefits-in-kind) computed based on the cost incurred by the Company, and where the Company did not incur any costs, the value of the benefit. The remuneration of key management personnel of the Company during the financial year is as follows:

	2020	2019
	\$	\$
Director		
Salaries, wages and other short-term employee benefits	218,734	191,758
	218,734	191,758
 <i>Other related party transactions</i>		
With the member		
Expenses paid on behalf of the Company	125,322	106,870
	125,322	106,870

21 Leases

Leases as lessee (FRS 116)

The Company leases office premises and office equipment. The leases typically run for a period of 2 to 3 years.

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

	Office premises \$	Office equipment \$	Total \$
Balance at 1 July 2019	396,964	9,855	406,819
Depreciation charge for the year	(216,526)	(3,196)	(219,722)
Balance at 30 June 2020	180,438	6,659	187,097

Amounts recognised in profit or loss

	\$
2020 – Leases under FRS 116	
Interest on lease liabilities	<u>8,297</u>
2019 – Operating leases under FRS 17	
Lease expense	<u>225,336</u>

Amounts recognised in statement of cash flows

	2020 \$
Total cash outflow for leases	<u>225,336</u>

22 Financial risk management

Financial risk management

Risk management is integral to the whole business of the Company. The Company has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Company's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Company. The management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the Board of Directors.

Financial risk management objectives and policies

Exposure to credit, liquidity, foreign currency and interest rate risks arises in the normal course of the Company's business activities. These risks are limited by the Company's financial management policies and practices described below.

Credit risk

The Company has a credit policy in place which establishes credit limits for customers and monitors their balances on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Cash and cash equivalents are placed with banks and financial institutions which are regulated.

At the reporting date, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Expected credit loss assessment as at 30 June 2020

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables as at 30 June:

	Gross carrying amount	Impairment loss allowance	Credit impaired
	\$	\$	
2020			
Current (not past due)	899,668	–	No
1 – 30 days past due	41,741	–	No
31 – 60 days past due	19,290	–	No
61 – 90 days past due	1,174	–	No
More than 90 days	97,095	–	No
	<u>1,058,968</u>	<u>–</u>	
2019			
Current (not past due)	522,024	–	No
1 – 30 days past due	45,249	–	No
31 – 60 days past due	61,408	–	No
61 – 90 days past due	5,653	–	No
More than 90 days	207,074	–	No
	<u>841,408</u>	<u>–</u>	

Based on actual credit loss experience over the past three years and Company's view of economic conditions over the expected lives of the receivables, the Company considers the loss rates to be negligible.

Trade receivables

The Company uses an allowance matrix to measure the ECLs of trade receivables from customers, which comprise a very large number of small balances. Loss rates are based on actual credit loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables. The exposure to credit risk and ECL for trade receivables as at 30 June 2020 is negligible.

Other receivables

The Company assesses on a forward-looking basis the ECLs associated with financial assets at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Company considers that the credit risk of these counterparties has not increased.

The Company considers the amount of the allowance on other receivables to be negligible.

Cash and cash equivalents

The Company held cash and cash equivalents of \$1,618,430 as at 30 June 2020 (2019: \$1,712,410), which represents its maximum credit exposure on these assets. Cash is placed with financial institutions which are regulated and have good credit standing.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The amount of the allowance on cash and cash equivalents is negligible.

Liquidity risk

The Company monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Company's operations and to mitigate the effects of fluctuations in cash flows.

The following are the expected contractual undiscounted cash outflows of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	Cash flows		Between 1 - 5 years
		Contractual cash flows	Within 1 year	
	\$	\$	\$	\$
2020				
Non-derivative financial liabilities				
Other payables*	(1,724,693)	(1,724,693)	(1,724,693)	–
Lease liabilities	(189,780)	(191,950)	(188,336)	(3,614)
	<u>(1,914,473)</u>	<u>(1,916,643)</u>	<u>(1,913,029)</u>	<u>(3,614)</u>
2019				
Non-derivative financial liabilities				
Other payables	<u>(2,989,096)</u>	<u>(2,989,096)</u>	<u>(2,989,096)</u>	<u>–</u>

* Excluding deferred grant income

Foreign exchange risk

The Company is exposed to foreign currency risk on bank balances and purchases that are denominated in currencies other than the functional currency of the Company. The currency giving rise to this risk is primarily the United States dollars. The Company does not hedge these exposures by purchasing forward currency contracts. However, the Board keeps this policy under review.

The Company's exposure to foreign currency risk was as follows based on notional amounts:

	United States dollars	
	2020	2019
	\$	\$
Cash and cash equivalents	8,953	2,684
Other payables	(1,393,853)	(2,673,142)
Net exposure	(1,384,900)	(2,670,458)

Sensitivity analysis

The following table details the Company's sensitivity to a 5% change in United States dollars against the Singapore dollars. The sensitivity analysis assumes an instantaneous 5% change in the foreign currency exchange rates from the end of the financial year, with all other variables held constant. The results of the model are also constrained by the fact that only monetary items, which are denominated in United States dollars is included in the analysis.

	Increase/(Decrease)	
	Profit or loss	
	2020	2019
	\$	\$
<i>United States dollar</i>		
Strengthens against Singapore dollar	(69,245)	(133,523)
Weakens against Singapore dollar	69,245	133,523
	69,245	133,523

Interest rate risk

The Company's exposure to market risk for changes in interest rates relates mainly to bank balances and deposits with financial institutions.

The management does not expect any material impact on profit or loss arising from the effects of reasonably possible changes to interest rates.

Accounting classification and fair values

The carrying amounts of financial assets and liabilities shown in the statement of financial position are as follows. For the current year, the fair value disclosure of lease liabilities is not required.

	Note	Amortised cost \$	Other financial liabilities \$	Total carrying amount \$	Fair value \$
2020					
Financial assets not measured at fair value					
Trade and other receivables	7	1,058,968	–	1,058,968	1,058,968
Cash and cash equivalents	8	1,618,430	–	1,618,430	1,618,430
		2,677,398	–	2,677,398	2,677,398
Financial liabilities not measured at fair value					
Other payables*	9	–	1,724,693	1,724,693	1,724,693

*Excluding deferred grant income

	Note	Amortised cost \$	Other financial liabilities \$	Total carrying amount \$	Fair value \$
2019					
Financial assets not measured at fair value					
Trade and other receivables	7	841,408	–	841,408	841,408
Cash and cash equivalents	8	1,712,410	–	1,712,410	1,712,410
		<u>2,553,818</u>	–	<u>2,553,818</u>	<u>2,553,818</u>
Financial liabilities not measured at fair value					
Other payables	9	–	2,989,096	2,989,096	2,989,096

Fair value hierarchy information on financial assets and financial liabilities not measured at fair value are not included as the carrying amounts are a reasonable approximation of fair values.

23 Subsequent events

On 11 March 2020, the World Health Organization declared the 2019 Novel Coronavirus (Covid-19) outbreak a pandemic. Management has since taken precautionary measures in accordance with guidelines provided by the authorities. As there is no clarity to when normalcy will fully return, the Company cannot reasonably estimate the impact these events will have, if any, on the Company's financial position, results of operations or cash flows in the future. Management will continue strong oversight of the Company's performance outlook and will take necessary steps to ensure business continuity plans are in place.