HAFARY
Holdings Limited

The Leading Building Material Supplier Since 1980

TILE | STONE | MOSAIC | SANITARY WARE & FITTINGS | WOOD FLOORING | QUARTZ TOP

Annual Report 2015

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CORPORATE PROFILE

Hafary Holdings Limited and its subsidiaries ("Hafary") is a leading supplier of premium tiles, stone, mosaic, wood-flooring, quartz top and sanitary ware and fittings in Singapore. Leveraging on our strong sourcing and procurement network, we carry a wide variety of surfacing materials from Europe (mainly Italy and Spain) and Asia and supply to our customers at competitive prices.

Established in 1980 by Executive Director and CEO, Mr Low Kok Ann, Hafary is organized into 2 core business segments: General and Project. The General segment is spearheaded by the largest sales generator of the group, Hafary Pte Ltd, that supplies ceramics and stone tiles, quartz top and sanitary ware and fittings. Surface Project Pte. Ltd. and Surface Stone Pte. Ltd. cater to demand for surfacing materials for use in construction and development projects. To date, these subsidiaries have supplied tiles and stone for use in a considerable number of quality commercial and residential development projects in Singapore.

Wood Culture Pte. Ltd. complements Hafary's businesses by offering wood flooring. To expand its presence in the building materials industry, Hafary started a joint venture, Melmer Stoneworks Pte. Ltd., specializing in the fabrication, polishing and profiling of stone and marble slabs for household and commercial purposes.

Investment in Vietnam associate, Viet Ceramics International JSC, is Hafary's first foray into the overseas tile retailing market. Foshan Hafary Trading Co., Limited, Hafary's wholly-owned export agent in China, provides opportunities for the Group to widen its procurement and business network. In line with its expansion plans, Hafary will continue to explore overseas opportunities.

Corporate headquarters and main showroom of Hafary is located at 105 Eunos Avenue 3, Hafary Centre, Singapore 409836. Main warehouse of the group is located at 3 Changi North Street 1 Singapore 498824.

General

Retail customers may purchase our products directly from our three showrooms located at 105 Eunos Avenue 3 Singapore 409836, 560 Balestier Road Singapore 329876 and 18 Boon Lay Way #01-132 Tradehub 21 Singapore 609966. At our showrooms, customers can look forward to a wide variety of product displays, mock ups of living spaces and amicable service by our showroom sales team. Retail customers include architecture, interior design and renovation firms, who make ad-hoc purchases for small projects such as home renovation or small property development.

Project

We also supply surfacing materials to customers who are involved in public and private property development projects in Singapore. These public sector projects include HDB upgrading, construction or upgrading of public buildings such as schools, hospitals, sport complexes and military camps. Property development projects in the private sector include residential, commercial and industrial projects such as condominiums, shopping centres and hotels. Our Project customers comprise architecture firms, property developers and construction companies.

OUR PRODUCTS

T I L E S

Ceramic • Porcelain

BRANDS WE CARRY

ABK Ceramiche • Ascot Ceramiche

Ceramiche Atlas Concorde • Cerdomus Ceramiche

Coem Ceramiche • Cotto d'Este • Fincibec Group • Imola Ceramica

Lea Ceramiche • Love Tiles • Marazzi • MML Marketing

Porcelanosa • Saime Ceramiche • Viva Made

Dedicated to bringing your design ideas to life, we market and distribute a comprehensive range of premium tiles for your selection. Backed by our strong sourcing and procurement network, we offer quality material at competitive prices while meeting your requirements and preferences.

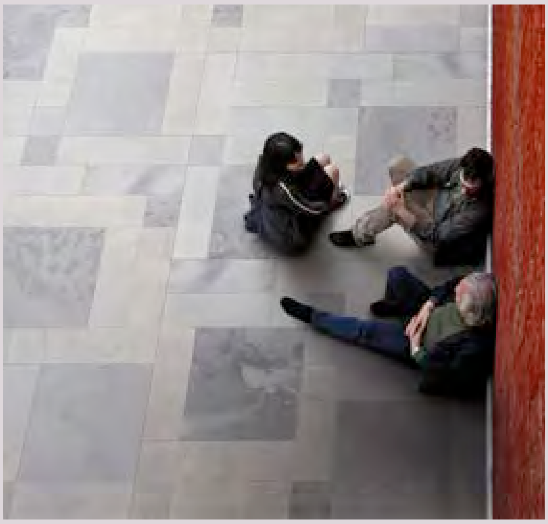
OUR PRODUCTS

S T O N E

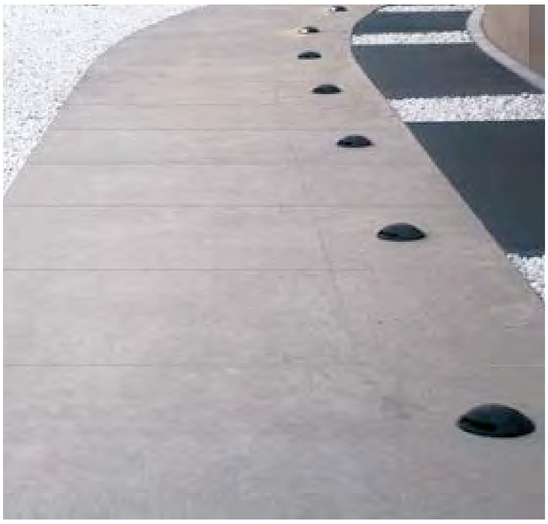
Granite • Limestone • Marble • Quartz •
Composite Quartz & Marble

BRANDS WE CARRY

Caesarstone • Kalingastone • Santa Magherita



Enjoy luxury and beauty that stone offers. Carefully sourced from around the world, we bring in new selections regularly to inspire you with the limitless design possibilities.



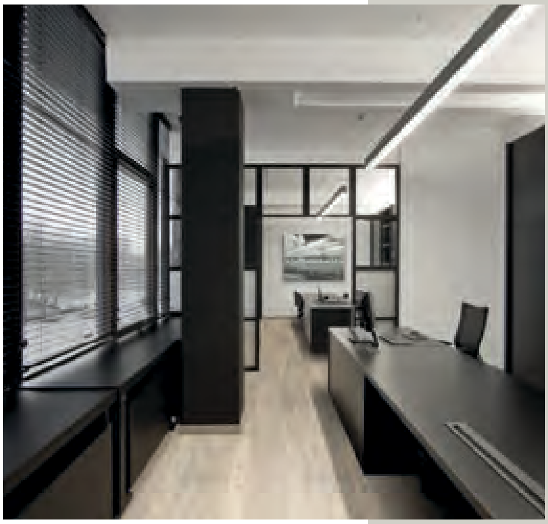
OUR PRODUCTS

W O O D

Engineered Timber • Solid Hardwood • Laminates • Vinyl • Outdoor Decking

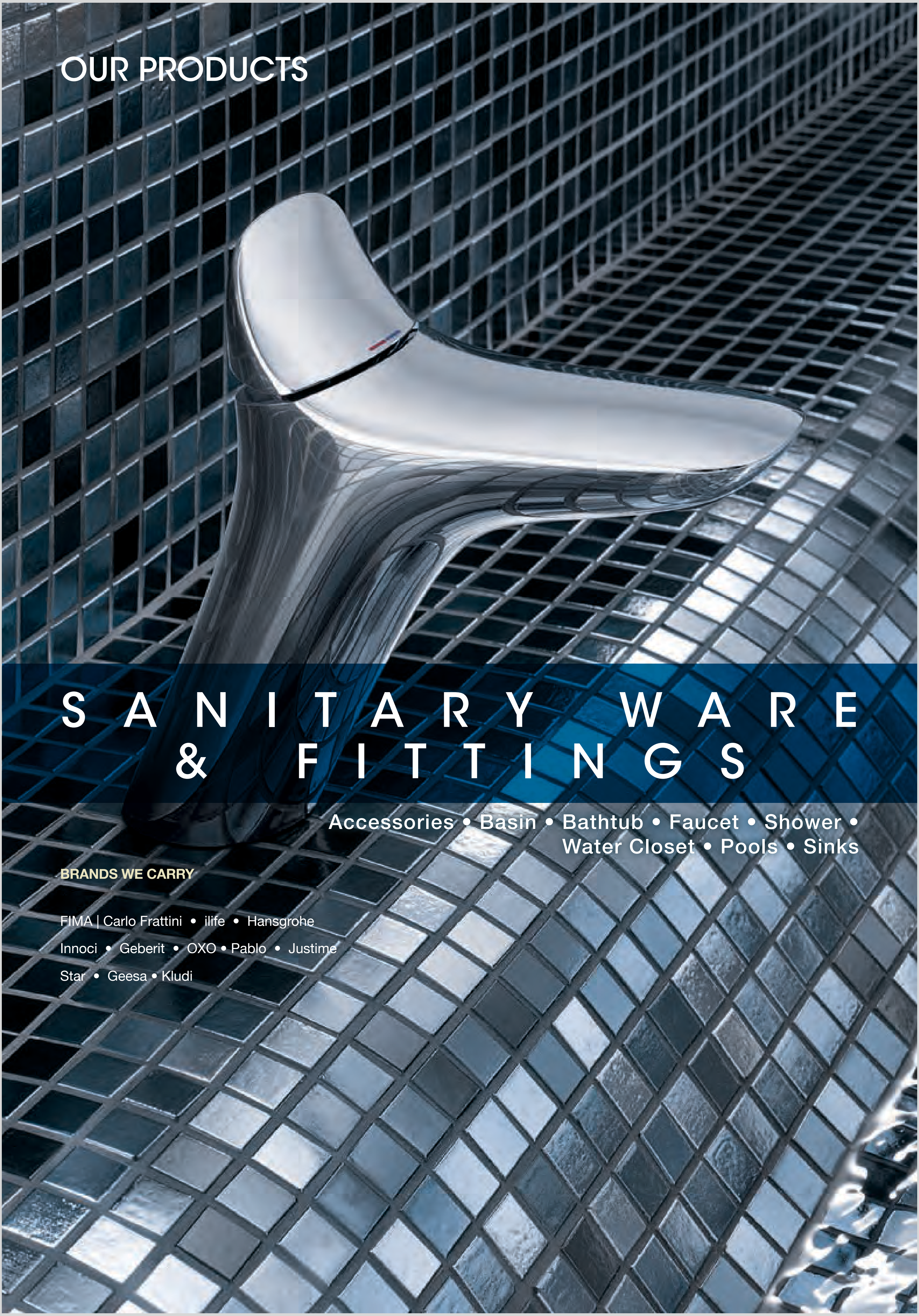
BRANDS WE CARRY

BerryAlloc • Wood Culture



We stay ahead at the forefront of the latest wood flooring trends while sourcing timber from well-managed and regulated forests. As such, we are able to achieve the delicate balance between supply and demand, natural and sustainable as well as consumable and renewable.

OUR PRODUCTS

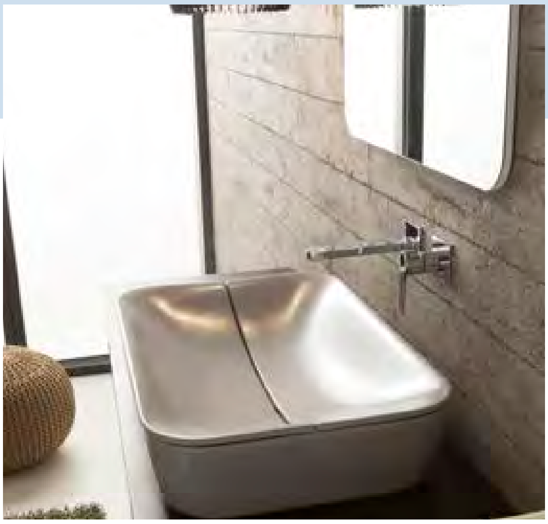


SANITARY WARE & FITTINGS

Accessories • Basin • Bathtub • Faucet • Shower • Water Closet • Pools • Sinks

BRANDS WE CARRY

FIMA | Carlo Frattini • ilife • Hansgrohe
Innoci • Geberit • OXO • Pablo • Justime
Star • Geesa • Kludi



Seeking to offer expedience while creating an integrated and holistic shopping experience for our customers, our showrooms showcase a comprehensive array of high quality internationally renowned sanitary ware and fittings aimed at making every bathroom a luxurious sanctuary.

CEO'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of Hafary Holdings Limited ("Hafary" or the "Group"), I am pleased to present you with the Group's Annual Report for the 18 months ended 31 December 2015 ("18M2015").

Higher Group Revenue

For the financial period under review, the Group registered higher revenue of S$183.2 million compared to S$153.3 million in the financial period of 18 months ended 31 December 2014 ("18M2014"). The improvement in revenue was driven by an across-the-board increase in sales contributed by its two business segments, namely General, comprising customers who are home-owners as well as architecture, interior design and renovation firms; and Project, comprising customers who are architectural firms, property developers and construction companies.

Segmental Performance

Revenue from the General segment increased by S$8.6 million or 10.7% from S$80.2 million in 18M2014 to S$88.8 million in 18M2015. The higher revenue for this segment was due primarily to the Group's marketing initiatives to broaden its customer base, coupled with growing customer loyalty. This segment accounted for 48.5% of Group revenue.

The Project segment recorded revenue of S$90.8 million for 18M2015, representing an increase of S$19.8 million or 28.0% from S$71.0 million in 18M2014. With a slightly higher contribution of 49.6% to Group revenue, this segment's performance improved as the Group supplied tiles and building materials for more public projects and development projects.

Profitability

Profit before income tax increased by S$3.0 million or 15.2% from S$19.8 million in 18M2014 to S$22.8 million in 18M2015. The higher profit before income tax for 18M2015 was largely due to the improved sales during the period and an increased share of profits from associate, VCI. Excluding the gain on disposal of a subsidiary and share of profits from associate and joint venture amounting to S$2.3 million (18M2014: S$2.8 million) and fair value loss on other financial asset amounting to S$0.5 million (18M2014: Fair value gain of S$0.2 million), profit before income tax generated from recurring activities registered at S$21.0 million for 18M2015. (18M2014: S$16.9 million)

Enhancing Shareholder Value

The Company is committed to creating and enhancing shareholder value. In view of the Group's continued profitability, the Board is pleased to report that the Group had declared and paid three interim dividends totaling 2.0 cents per share for FY2015.

Singapore Business

Supplying to BTO flats

In 18M2015, the improvement in sales was mostly driven by the steady volume of deliveries of building materials for use in Housing Development Board ("HDB") residential estate development projects. However, as we expected in 2014, the supply of build-to-order flats in 2015 moderated to 16,900, down from the 22,455 flats launched in 2014. Notwithstanding the lower supply of BTO flats launched, the Group's Public Project Department managed to sustain the business volume by securing other projects, such as executive condominiums, public facilities and infrastructure, as well as home improvement and other upgrading programmes.

MSPL Grows Apace

The Group's joint venture, Melmer Stoneworks Pte Ltd ("MSPL"), which specialises in fabrication, polishing and profiling of stone and marble slabs for household and commercial purposes, continued to grow at a steady pace. MSPL's profit contribution amounted to S$0.2 million. In FY2015, MSPL completed alteration and addition works at its premises to improve its operational capabilities. With the introduction of more automation, operating processes were further streamlined to serve our customers better.

Injecting Life into the IFP

In April 2015, World Furnishing Hub Pte. Ltd. ("WFHPL"), a joint venture between the Group and Sitra Holdings (International) Limited ("Sitra"), commenced construction of a 7-storey industrial building of gross floor area of approximately 300,000 square feet at 18 Sungei Kadut Street 2. This leasehold land is located at the epicenter of the International Furniture Park ("IFP"), which Jurong Town Corporation plans to position as Southeast Asia's premier global marketplace for furniture and furniture-related industries. The Group plans to use commercial space of approximately 30,000 square feet to house amenities to inject life and vibrancy into the IFP. Industrial space of approximately 270,000 square feet shall be used by Hafary and Sitra for warehousing, ancillary office and other authorized purposes. The construction of the building is expected to be completed by September 2016.

Overseas Investments

Vietnam

For 18M2015, the Group's associate, Viet Ceramics International Joint Stock Company ("VCI"), a tile retailing company in Vietnam, contributed profits amounting to S$2.1 million (18M2014: S$1.5 million) to the Group. The increased contribution from VCI is attributed to the improved economic climate of Vietnam since year 2013 and particularly its strong GDP growth of 6.68% in 2015.

In February 2015, VCI also increased its market presence by opening a showroom in Phu My Hung of Ho Chi Minh City to serve the increasing number of middle and high income earners in the province. In March 2016, VCI opened a second showroom in Hanoi. Altogether, VCI has 5 showrooms in Vietnam and an Outdoor Sales Department which has been tirelessly reaching out to the large number of renovation and architectural firms in Vietnam.

China

In 18M2015, the Group completed the refurbishment of a 441,000 square feet warehouse premise at Gaoming of Foshan, Guangzhou. The Group has been housing certain project inventories in China where storage costs are lower, before delivering to other markets, including Singapore where warehousing resources are scarce. The warehouse is located in close proximity with Gaoming Port which facilitates the shipping of inventories within short notice to Singapore and other Asian locations. The Group has also begun to lease unutilised space in the warehouse premise for rental income.

Corporate Developments

Synergies with HSCB

In February 2015, the Group became a subsidiary of Hap Seng Consolidated Berhad ("HSCB"), a company incorporated in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad, after HSCB completed the acquisition of 51% equity in Hafary. The business combination between the Company and HSCB is expected to create strong synergistic benefits, as Hafary's business as a downstream player is complementary to HSCB's existing involvement in the building materials upstream market segment. Besides being a distributor of internationally acclaimed brands with a diversified customer portfolio and an established and extensive distribution network, Hafary is well-positioned to facilitate HSCB's regional expansion initiatives to develop an integrated building materials business.

Following this major corporate development, Hafary's financial year was changed to 31 December so as to align itself with HSCB's year end, in compliance with HSCB's group consolidation and reporting requirements.

CSR for a Meaningful SG50 Jubilee

2015 represented a very special moment for Singapore as it was a year of reflection, celebration and inspiration for Singaporeans from all walks of life. The Group kick started the SG50 Jubilee Year with a corporate social responsibility ("CSR") initiative by donating S$100,000 to Thye Hwa Kwan Moral Society. In 18M2015, the Group also made contributions to other not-for-profit societies such as the Singapore Badminton Association, the NCSS Charitable Fund and People's Association Community Development Funds.

35th Anniversary Celebrations

2015 also marked our 35th year in business. From our humble beginnings in 1980, Hafary Group has grown from strength to strength to become the leading tile supplier in Singapore. On 16 October 2015, an anniversary gathering was held at our corporate headquarters and main showroom in Eunos to thank our customers and business associates for their support over the past 35 years. With continued collaboration with our business associates and customers, we look forward to celebrating Hafary's 50th Anniversary together in 15 years' time.

Towards the Future

Branding through SingaPlural

In March 2016, Hafary took part in SingaPlural, the anchor event of Singapore Design Week. SingaPlural is a design festival that showcases the best design elements from advertising, architecture, urban planning, landscape architecture as well as interior, furniture, graphic and fashion design. In this event, Hafary collaborated with architectural firm, WY-TO, on an interactive and playful installation titled Tile It Up. We are the first tile company to participate in a design festival of this scale and has enabled us to reach out to the masses through a fresh and alternative approach.

Harnessing Growth Potential

For 2016, the Building and Construction Authority of Singapore has projected construction demand of between S$27 billion and S$34 billion, with about 65% driven by public sector demand. Key projects in 2016 include the ramp-up in the Home Improvement Programme for HDB flats, the construction of the new National Cancer Centre, State Courts' new building at Havelock Square and remaining contracts for the Thomson East Coast MRT line. As such, Singapore's construction demand continues to present the Hafary Group with substantial opportunities to expand its business locally.

Moving forward, the Group will continue to build on its overseas operations and pursue expansion opportunities including acquisitions, joint ventures and strategic alliances with synergistic partners.

A Note of Appreciation

I wish to express my appreciation to my fellow Directors for their counsel and guidance, especially the former Board of Directors who contributed to Hafary's strong business footing. Also, I wish to take this opportunity to welcome three new Board members, namely, Datuk Edward Lee Ming Foo, JP, Ms Cheah Yee Leng and Mr Yeow Wai Siaw, who bring with them a wealth of knowledge and experience.

My sincere gratitude also goes to all our stakeholders for their unstinting support to the Hafary Group amidst these economically uncertain times. In particular, I wish to thank our management and employees for their dedication and focused efforts to deliver their best. We will leverage on our robust business foundation to strengthen our market share and stay vigilant to seize and capitalise on opportunities that may arise from the markets in which Hafary operates.

Low Kok Ann

Executive Director & CEO

BOARD OF DIRECTORS

Ong Beng Chye
Independent Non-Executive Chairman

Mr Ong Beng Chye was appointed as Lead Independent Director on 10 November 2009 and was re-elected on 31 October 2014. He was appointed as the Independent Non-Executive Chairman of our Company on 6 March 2015. He graduated with a Bachelor of Science with Honours Degree from The City University, London in 1990 and has more than 20 years of experience in the finance sector. Mr Ong is currently a Director of Appleton Global Pte Ltd, a business management and consultancy services firm. He is also serving as an Independent Director of other listed companies in Singapore. He is a Fellow of The Institute of Chartered Accountants in England and Wales, a Chartered Financial Analyst conferred by The Institute of Chartered Financial Analysts and a non-practising Chartered Accountant (Singapore).

Other present directorship:
Heatec Jietong Holdings Ltd.
Kitchen Culture Holdings Ltd.
Geo Energy Resources Limited
IPS Securex Holdings Limited

Past directorship (Preceding three years): NIL

Low Kok Ann
Executive Director and Chief Executive Officer

Mr Low Kok Ann was appointed as Executive Director and Executive Chairman of our Company on 6 October 2009. He was one of the founders of the main subsidiary of our Company, Hafary Pte Ltd, and has been an Executive Director since its incorporation in 1980. His wealth of experience in the tile industry has been pivotal to our success and growth. He was appointed as Chief Executive Officer ("CEO") of our Company on 1 February 2014. On 6 March 2015, Mr Low relinquished his role of Executive Chairman and was re-designated as Executive Director and CEO. As the CEO, his primary responsibility is to formulate and oversee the corporate and strategic development and overall management and operations of our Group. Mr Low attained a Government Higher School Certificate (Chinese) in 1969. He was re-elected as Executive Director of our Company on 31 October 2014.

Other present directorship:
NIL

Past directorship (Preceding three years): NIL

Datuk Edward Lee Ming Foo, JP was appointed as a Non-Independent Non-Executive Director of our Company on 6 March 2015. He graduated with a Degree in Bachelor of Arts from the McMaster University in Canada in 1977.

Datuk Edward Lee is presently the Managing Director of Hap Seng Consolidated Berhad (HSCB) and Hap Seng Plantations Holdings Berhad, both listed on the Main Market of Bursa Malaysia Securities Berhad. In addition, he is the Managing Director of Gek Poh (Holdings) Sdn Bhd, the holding company of HSCB. HSCB is also the 51% major shareholder of the Company.

Other present directorship:
Hap Seng Consolidated Berhad
Hap Seng Plantations Holdings Berhad

Past directorship (Preceding three years): NIL

Mr Low See Ching was appointed as the Non-Independent Non-Executive Director on 31 January 2014. Prior to this appointment, he served in the Board as Executive Director and in the Company as CEO. He joined the main subsidiary of our Company, Hafary Pte Ltd, in 2000 and rose through the ranks from Sales Executive to CEO in 2005. As the CEO, he was responsible for the overall management, operations and charting our corporate and strategic direction, including our sales, marketing and procurement strategies. Mr Low is presently the Executive Director and Deputy CEO of Oxley Holdings Limited, listed on the Mainboard of Singapore Exchange. Mr Low graduated with a Bachelor of Accountancy Degree from Nanyang Technological University, Singapore in 1999. He was re-elected as Director of the Company on 25 October 2013.

Other present directorship:
Oxley Holdings Limited
HG Metal Manufacturing Limited

Past directorship (Preceding three years): NIL

Ms Cheah Yee Leng was appointed as a Non-Independent Non-Executive Director of our Company on 6 March 2015. She holds a Bachelor of Economics Degree and Bachelor of Laws Degree from Monash University in Australia.

Ms Cheah joined Hap Seng Consolidated Berhad (HSCB) group of companies in 1997 and was appointed an Executive Director of HSCB on 1 June 2014. She is presently the Director of Corporate Affairs and the Legal Counsel of HSCB Group.

Ms Cheah is also an Executive Director of Hap Seng Plantations Holdings Berhad (HSP) and a Non-Independent Non-Executive Director of Paos Holdings Berhad, both listed on the Main Market of Bursa Malaysia Securities Berhad. In addition, she is the Group Company Secretary of HSP.

Other present directorship:
Hap Seng Consolidated Berhad
Hap Seng Plantations Holdings Berhad
Paos Holdings Berhad

Past directorship (Preceding three years): NIL

BOARD OF DIRECTORS

Yeow Wai Siaw
Non-Independent Non-Executive Director

Terrance Tan Kong Hwa
Independent Director

Chow Wen Kwan Marcus
Independent Director

Mr Yeow Wai Siaw was appointed as a Non-Independent Non-Executive Director of our Company on 6 March 2015. Mr Yeow graduated with a First Class Honour Degree in Industrial and Mechanical Engineering from the University Technology of Malaysia. He holds an MBA in Finance with Distinction from the University of Hull (United Kingdom) and an MBA from INSEAD.

He is the Chief Executive of Malaysian Mosaics Sdn Bhd, the manufacturer of MML, one of Malaysia's leading brands in porcelain and ceramic tiles with five decades in the market.

Mr Yeow was key senior executive for various listed companies in the manufacturing and property development industry in Malaysia in the past 20 years. Before taking the helm at Malaysian Mosaics Sdn Bhd in November 2012, Mr Yeow served as the Managing Director of GuocoLand (Malaysia) Berhad, the Head of Group Business Development of Hap Seng Consolidated Berhad and the Senior Vice President of Commercial at Lafarge Malayan Cement Berhad. Prior to these appointments, Mr Yeow practiced as a Consultant at McKinsey & Company.

Other present directorship:
Guocoland (Malaysia) Berhad

Past directorship (Preceding three years): NIL

Mr Terrance Tan Kong Hwa was appointed as an Independent Director of our Company on 10 November 2009 and was re-elected on 12 October 2012. He has more than 20 years of experience in the banking and private equity/ venture capital industry, holding various positions within DBS Bank Group and Standard Chartered Bank. Between 2002 and 2007, Mr Tan was key executive officer with several listed entities, responsible for financial affairs, business matters, merger and acquisition and investment activities. He is currently a Partner/ Director of Providence Capital Management Pte Ltd, a private equity fund management and consultancy firm that he co-founded in 2007. Mr Tan graduated with a Degree in Bachelor of Science (Estate Management) (Honours) from the National University of Singapore in 1989.

Other present directorship:
NIL

Past directorship (Preceding three years):
Consciencefood Holding Limited
Teho International Inc Ltd.

Mr Chow Wen Kwan Marcus was appointed as an Independent Director of our Company on 10 November 2009 and was re-elected on 25 October 2013. He is currently a partner of Bird & Bird ATMD LLP in Singapore and has more than 15 years of experience in legal practice. His practice focuses on mergers and acquisitions, private equity as well as equity and debt capital markets. He had worked in various international law firms in New York, Hong Kong and Singapore. Mr Chow graduated with a Bachelor of Laws from the National University of Singapore in 1998 and a Master of Laws from the University of Virginia in 1999. He also holds a certificate in Governance as Leadership from the Harvard Kennedy School. Mr Chow is qualified to practice in Singapore and New York, USA.

Other present directorship:
SMJ International Holdings Ltd.
Versalink Holdings Limited

Past directorship (Preceding three years):
Ley Choon Group Holdings Limited
Zhongxin Fruit and Juice Limited

KEY MANAGEMENT

Tay Eng Kiat Jackson
Director - Operation

Mr Tay joined our Group in 2009 to head the Finance Department and is currently the Operation Director and Company Secretary of the Group. He oversees the operational and corporate functions of our Group, including business development, investor relations and corporate secretarial duties. Mr Tay has more than 15 years of experience in Accounts and Finance functions of various entities in the public and private sector. He graduated with a Bachelor of Accountancy Degree (Minor in Marketing) from Nanyang Technological University, Singapore in 2002. He is a non-practising Chartered Accountant (Singapore).

Koh Yew Seng Mike
Director - Logistics

Mr Koh joined our Group in 2008. His responsibilities include overseeing our warehouse and logistics operations and also assisting the CEO with procurement administration. He also facilitates operational coordination between the Group's Singapore and overseas entities. Mr Koh has more than 15 years of experience in the tile industry. He attained his General Certificate of Education 'O' Levels in 1977.

Goh Keng Boon Frank
Project Director

Mr Goh joined our Group in 2004. He heads the Project Sales and Marketing team of Surface Project Pte Ltd, a key subsidiary involved in private sector project sales and leads the execution of its corporate sales strategies. Mr Goh has more than 10 years of experience in the tile industry. He graduated with a Bachelor Degree in Building Management from RMIT University, Australia in 2001.

Cheong Ching Hing Simon
Business Development Director/ HR Manager

Mr Cheong joined our Group in 2010. He oversees the Marketing and Human Resources function and plays active role in developing various business divisions. Mr Cheong has more than 10 years of experience in the tile industry. He graduated with a Diploma in Mechanical Engineering from Ngee Ann Polytechnic in 1991 and has a Diploma in Salesmanship from Managing & Marketing Sales Association (United Kingdom).

Tay Chye Heng Stephen
Public Project Director

Mr Tay joined our Group in 2011 to set up and lead the Public Project Department specialising in the supply of building materials for use in Housing Development Board ("HDB") flats and government buildings. Mr Tay has more than 30 years of experience and held various key positions in his past employments in the tile industry. He attained his General Certificate of Education 'O' Levels in 1974.

Tommy Louis Chieng Yu Li
Director - Retail and Trade

Mr Chieng joined our Group in 2015 and oversees the retail sales and sanitary ware division. He has more than 10 years of work experience in various industries and fields, such as corporate strategy, sales and marketing management, product management, land acquisition, contract administration and procurement. He graduated with a Bachelor of Engineering from University of Warwick (United Kingdom) and has attained an MBA from HELP University Malaysia.

Wu Pei Cong
Financial Controller

Mr Wu joined our Group in 2011 as Finance Manager and was promoted to Financial Controller in August 2015. He oversees the Group's finance and corporate functions including treasury, financial reporting, tax and internal controls. Before joining the Group, he was an Audit Manager of a mid-tier audit firm. He is a fellow member of the Association of Chartered Certified Accountants, a member of Institute of Internal Auditors Singapore and a non-practising Chartered Accountant (Singapore).

FINANCIAL HIGHLIGHTS

The Company changed its financial year end from 30 June to 31 December. The financial period for FY2015 covers an 18-month period from 1 July 2014 to 31 December 2015 (“18M2015”). The 18-month period results ended 31 December 2014 (“18M2014”), which is computed by adding the results of the 6-month period ended 31 December 2014 (from 1 July 2014 to 31 December 2014) to that of 12-month period ended 30 June 2014, is presented for comparative purposes.

For the Year	18M2015 $’000	18M2014 $’000	FY2014 $’000	FY2013 $’000	FY2012 $’000	FY2011 $’000
Revenue - General	88,847	80,249	50,388	47,664	40,757	37,732
Revenue - Project	90,824	70,956	41,283	35,446	22,241	22,590
Revenue - Others	3,573	2,070	1,074	227	75	32
Total Revenue	183,244	153,275	92,745	83,337	63,073	60,354
Revenue - General (% of total revenue)	48.5%	52.4%	54.3%	57.2%	64.6%	62.5%
Revenue - Project (% of total revenue)	49.6%	46.3%	44.5%	42.5%	35.3%	37.4%
Earnings before interest, income taxes and depreciation (EBITDA)	29,193	25,092	14,359	32,385	8,221	10,478
EBITDA margin (%)	15.9%	16.4%	15.5%	38.9%	13.0%	17.4%
Finance cost (i.e. Interest expense)	3,753	2,824	1,784	1,207	1,079	653
Profit before income tax	22,828	19,824	10,747	28,012	6,038	9,081
Profit before income tax margin (%)	12.5%	12.9%	11.6%	33.6%	9.6%	15.0%
Net Profit	23,645	16,628	8,720	22,882	5,070	7,501
Net Profit margin (%)	12.9%	10.8%	9.4%	27.5%	8.0%	12.4%
Profit after income taxes and non-controlling interest (PATNCI)	22,176	15,533	8,048	22,328	4,547	6,873
PATNCI margin (%)	12.1%	10.1%	8.7%	26.8%	7.2%	11.4%

At Year End	FY2015 $’000	FY2014 $’000	FY2013 $’000	FY2012 $’000	FY2011 $’000
Non-current assets	111,494	77,031	55,145	37,465	29,965
Current assets	102,578	77,303	80,842	86,367	43,080
Total assets	214,072	154,334	135,987	123,832	73,045
Non-current liabilities	66,251	37,390	17,619	19,315	20,346
Current liabilities	93,023	76,660	71,617	71,512	27,513
Total liabilities	159,274	114,050	89,236	90,827	47,859
Total debt	123,641	91,642	64,566	56,532	38,735
Cash and cash equivalents	8,531	4,857	9,583	4,984	3,273
Net debt	115,110	86,785	54,983	51,548	35,462
Shareholders' equity	50,787	37,649	44,676	31,304	23,798
Total equity	54,798	40,284	46,751	33,005	25,186
Number of ordinary shares ('000)	429,000	429,000	429,000	194,500	162,500
Weighted average number of ordinary shares ('000) (Basic)	429,000	429,000	402,479	363,295	162,500
Weighted average number of ordinary shares ('000) (Fully diluted)	429,686	429,000	402,479	363,295	162,500
Share price at year end date (cents)	18.5	17.8	19.1	23.5	19.5
Market capitalisation as at year end date	79,365	76,362	81,939	45,708	31,688

Financial Ratios	18M2015	FY2014	FY2013	FY2012	FY2011
Profitability					
Revenue growth (%)	19.6%	11.3%	32.1%	4.5%	57.4%
PATNCI growth (%)	42.8%	(64.0%)	391.0%	(33.8%)	124.5%
Return on assets (%) (PATNCI/ Total assets)	10.4%	5.2%	16.4%	3.7%	9.4%
Return on equity (%) (PATNCI/ Average shareholders' equity)	48.8%	19.6%	58.8%	16.5%	33.2%
Liquidity					
Current ratio (times)	1.1	1.0	1.1	1.2	1.6
Cash as per share (cents)	2.0	1.1	2.2	2.6	2.0
Net assets per share (cents)	11.8	8.8	10.4	16.1	14.6
Leverage					
Net debt to equity ratio (times) (Net debt/ Shareholders' equity)	2.3	2.3	1.2	1.6	1.5
Interest cover (times) (EBITDA/ Finance cost)	8.4	8.5	25.4	7.5	16.0
Investors' Ratio					
Earnings per share (cents) (Basic and fully diluted)	5.2	1.9	5.6	1.3	4.2
Gross dividend per share (cents) - Interim	2.0	1.0	4.0	1.0	-
Gross dividend per share (cents) - Final	-	0.3	2.5	1.5	0.9
Total gross dividend per share (cents) (DPS)	2.0	1.3	6.5	2.5	0.9
Gross dividend yield (%) based on year end share price	10.5%	7.3%	34.0%	10.6%	4.6%
Gross dividend payout (%) (Gross dividend/ Profit after tax attributable to shareholders)	38.7%	69.3%	100.9%	106.9%	21.3%

FINANCIAL REVIEW

Statement of Comprehensive Income	18M2015 $'000	18M2014 $'000	Change $'000	Change %
Revenue	183,244	153,275	29,969	19.6
Other Items of Income				
Dividend Income	23	-	23	N.M
Interest Income	103	56	47	83.9
Other Credits	499	1,637	(1,138)	(69.5)
Other Items of Expense				
Changes in Inventories of Finished Goods	6,788	8,510	(1,722)	(20.2)
Purchases and Related Expenses	(118,558)	(102,731)	(15,827)	15.4
Employee Benefits Expenses	(23,136)	(20,093)	(3,043)	15.1
Depreciation Expense	(4,896)	(4,214)	(682)	16.2
Impairment Losses	(2,207)	(1,099)	(1,108)	100.8
Other Losses	(1,522)	(582)	(940)	161.5
Finance Costs	(3,753)	(2,824)	(929)	32.9
Other Expenses	(16,041)	(13,881)	(2,160)	15.6
Share of Profit from Equity-Accounted Associate	2,110	1,493	617	41.3
Share of Profit from an Equity-Accounted Joint Venture	174	277	(103)	(37.2)
Profit Before Income Tax from Continuing Operations	**22,828**	**19,824**	**3,004**	**15.2**
Income Tax Income (Expense)	817	(3,196)	4,013	N.M
Profit from Continuing Operations, Net of Tax	**23,645**	**16,628**	**7,017**	**42.2**
Other Comprehensive Income:				
Exchange Differences on Translating Foreign Operations, Net of Tax	710	502	208	41.4
Total Comprehensive Income	**24,355**	**17,130**	**7,225**	**42.2**
Total Comprehensive Income Attributable to:				
- Owners of the Parent	22,886	16,035	6,851	42.7
- Non-Controlling Interests	1,469	1,095	374	34.2
	24,355	**17,130**	**7,225**	**42.2**

Revenue

For 18M2015, the Group achieved higher revenue of S$183.2 million, an increase of 19.6% from S$153.3 million in 18M2014.

Revenue from the general segment increased by S$8.6 million or 10.7% from S$80.2 million in 18M2014 to S$88.8 million in 18M2015. Revenue from project segment increased by S$19.8 million or 28.0% from S$71.0 million in 18M2014 to S$90.8 million in 18M2015. This segment recorded higher growth because the Group managed to secure and supply tiles and building materials for more public projects and development projects, including Sengkang Square, Capitol Building and Sky Habitat during the period under review.

Cost of Sales

Cost of sales increased by S$17.6 million or 18.7% from S$94.2 million in 18M2014 to S$111.8 million in 18M2015. The gross profit margin of 39.0% for 18M2015 was comparable to 38.5% recorded in 18M2014.

Employee Benefits Expenses

The increase in employee benefits expenses by S$3.0 million or 15.2% from S$20.1 million in 18M2014 to S$23.1 million in 18M2015 was mainly due to annual salary increment with effect from July 2014 and July 2015, overtime expenses incurred and increase in headcount to cope with the Group's increased business volume. As at 31 December 2015, the Group's staff strength stood at 280 employees (including directors) (31 December 2014: 241).

Depreciation Expense

Depreciation expense increased by S$0.7 million or 16.2% from S$4.2 million in 18M2014 to S$4.9 in 18M2015, due to increase in property, plant and equipment held by the Group in 18M2015.

Impairment Losses

Impairment losses increased by S$1.1 million or 100.8% from S$1.1 million in 18M2014 to S$2.2 million in 18M2015. This was mainly due to increase in allowance for impairment of inventories and trade receivables.

Other Gains

Other gains during 18M2015 mainly comprised of government grant income of S$0.2 million and fair value gains on derivative financial instruments of S$0.2 million.

Other gains during 18M2014 comprised mainly of a one-time gain of disposal of a loss-making subsidiary amounting to S$1.0 million, fair value gain on other financial asset of S$0.2 million, government grant income of S$0.2 million, sponsorship received of S$0.1 million and gain on disposal of development property of S$0.1 million.

Other Losses

Other losses in 18M2015 comprised mainly of foreign currency adjustment losses of S$1.0 million and fair value loss on financial asset of S$0.5 million. Other losses in 18M2014 mainly consist of loss on disposal of plant and equipment of S$0.3 million and net fair value losses on derivative financial instruments of S$0.2 million.

Finance Costs

Finance costs increased by S$1.0 million or 32.9% from S$2.8 million in 18M2014 to S$3.8 million in 18M2015, due mainly to interest expense on increased bank borrowings to cope with the increased business of the Group and higher interest rates in year 2015.

Other Expenses

Other expenses increased by S$2.1 million or 15.5% from S$13.9 million in 18M2014 to S$16.0 million in 18M2015. The increase was mainly attributable to increase in rental expenses, hire of motor vehicles and machinery, professional fees, entertainment expenses and compensation expenses due to the increased business of the Group; and an increase in property tax relating to leasehold properties at 105 Eunos Avenue 3 and 3 Changi North Street 1 following revision of property tax after redevelopment of the leasehold properties was completed.

Share of Profit from Equity-Accounted Associate and Joint Venture

These relate to share of profit from associate, Viet Ceramics International Joint Stock Company ("VCI"), and from joint venture, Melmer Stoneworks Pte. Ltd. ("MSPL").

Profit Before Income Tax

Profit before income tax increased by S$3.0 million or 15.2% from S$19.8 million in 18M2014 to S$22.8 million for 18M2015. The higher profit before income tax for 18M2015 was largely due to the improved sales in the period and higher share of profits from associate, VCI. Excluding gain on disposal of a subsidiary and share of profits from associate and joint venture amounting to S$2.3 million (18M2014: S$2.8 million) and fair value loss on other financial asset amounting to S$0.5 million (18M2014: Fair value gain of S$0.2 million), profit before income tax generated from recurring activities was S$21.0 million for 18M2015 (18M2014: S$16.9 million).

Income Tax Expense

The income tax income for 18M2015 was mainly due to the finalisation of tax submission for certain years of assessments. The effective tax rate (excluding deferred tax, share of results from equity-accounted associate and joint venture) for 18M2014 was 17.7%.

FINANCIAL REVIEW

Statement of Financial Position	FY2015 $'000	FY2014 $'000	Change $'000	Change %
Non-Current Assets:				
Property, Plant and Equipment	97,871	67,239	30,632	45.6
Investments in Associate	5,384	3,496	1,888	54.0
Investments in Joint Venture	318	278	40	14.4
Others	7,921	6,018	1,903	31.6
Current Assets:				
Inventories	46,979	41,356	5,623	13.6
Trade and Other Receivables	43,223	26,820	16,403	61.2
Others	12,376	9,127	3,249	35.6
Total Assets	**214,072**	**154,334**	**59,738**	**38.7**
Equity:				
Equity, Attributable to Owners of the Parent	50,787	37,649	13,138	34.9
Non-Controlling Interests	4,011	2,635	1,376	52.2
Total Equity	**54,798**	**40,284**	**14,514**	**36.0**
Non-Current Liabilities:				
Other Financial Liabilities	65,868	36,941	28,927	78.3
Others	383	449	(66)	(14.7)
Current Liabilities:				
Other Financial Liabilities	57,773	54,701	3,072	5.6
Trade and Other Payables	30,182	14,944	15,238	102.0
Others	5,068	7,015	(1,947)	(27.8)
Total Liabilities	**159,274**	**114,050**	**45,224**	**39.7**
Total Equity and Liabilities	**214,072**	**154,334**	**59,738**	**38.7**

Non-Current Assets

Non-current assets increased by S$34.6 million or 44.8% from S$77.0 million as at 30 June 2014 to S$111.6 million as at 31 December 2015.

Property, plant and equipment increased by S$30.6 million from S$67.2 million as at 30 June 2014 to S$97.8 million as at 31 December 2015. The increase was mainly due to capitalisation of differential premium, development costs, land rents, construction cost, property tax and borrowing costs during redevelopment to leasehold property at 18 Sungei Kadut Street 2 amounting to S$31.9 million; refurbishment of leasehold warehouse at 18C Sungei Kadut Street 4 and Foshan (China) amounting to S$1.2 million; addition of plant and equipment amounting to S$1.1 million; addition of motor vehicles amounting to S$1.1 million; and foreign exchange adjustments amounting to S$0.4 million. The above increase was partially offset by depreciation expense amounting to S$4.7 million and disposal of motor vehicle amounting to S$0.4 million.

The increase in investments in associates and joint ventures was due to the recognition of share of profits (net of dividends received by the Group) from VCI and MSPL in 18M2015.

Other non current assets increased by S$1.9 million. The increase was due to an investment in shares of a tile wholesale company in China amounting to S$2.2 million, foreign exchange gain adjustment of S$0.2 million relating to land use rights partially offset by fair value loss on investment in quoted shares of S$0.5 million.

Current Assets

Current assets increased by S$25.3 million or 32.6% from S$77.3 million as at 30 June 2014 to S$102.6 million as at 31 December 2015.

The increase was mainly attributable to increase in inventories by S$5.6 million, increase in trade and other receivables by S$16.4 million and increase in cash and cash equivalents by S$3.7 million. The increase in current assets was partially offset by decrease in other asset amounting to S$0.5 million.

The increase in trade receivables was in tandem with the revenue growth in 18M2015. Trade receivables turnover of 97 days as at 31 December 2015 was comparable to 93 days as at 30 June 2014. The increase in inventories was a result of the increase in sales volume in 18M2015. Inventory turnover of 228 days as at 31 December 2015 was an improvement compared to 251 days as at 30 June 2014.

Other assets decreased from S$4.3 million as at 30 June 2014 to S$3.8 million as at 31 December 2015, due mainly to decrease in advance payment to suppliers.

Shareholders' Equity

Shareholders' equity, comprising share capital, retained earnings, share option reserves and other reserves, increased by S$13.1 million. The increase was mainly attributable to net profit attributable to shareholders amounting to S$22.2 million, which was partially offset by dividend payments to shareholders amounting to S$9.9 million.

Non-Current Liabilities

Non-current liabilities increased by S$28.9 million or 77.3% from S$37.4 million as at 30 June 2014 to S$66.3 million as at 31 December 2015, mainly attributable to the increase in other financial liabilities.

The increase in other financial liabilities of S$28.9 million was mainly due to proceeds from drawdown of loans used for the development of the leasehold property at 18 Sungei Kadut Street 2 by subsidiary, World Furnishing Hub Pte Ltd. A short-term loan was converted to term loan in December 2015 and loan amount of S$14.0 million was reclassified from current portion to non-current portion. The above increase was partially offset by repayment of loans amounting to S$1.9 million in 18M2015.

Current Liabilities

Current liabilities increased by S$16.3 million or 21.3% from S$76.7 million as at 30 June 2014 to S$93.0 million as at 31 December 2015.

The increase was mainly due to increase in other financial liabilities by S$3.1 million, trade and other payables by S$15.2 million and provision by S$0.1 million. The increase was partially offset by decrease in income tax payable by S$2.1 million.

The increase in other financial liabilities was mainly due to increase in trust receipts and bills payable to banks by S$9.4 million and net drawdown of loan amounting to S$7.7 million. The increase was partially offset by reclassification of loan amounting to S$14.0 million to non-current portion.

Total amount of trade payables and trust receipts and bills payable to banks was S$53.0 million (30 June 2014: S$31.4 million). The turnover of the aforesaid items (based on cost of sales) is 205 days as at 31 December 2015 (30 June 2014: 215 days).

FINANCIAL REVIEW

Leasehold properties held by the Group	105 Eunos Avenue 3 Hafary Centre Singapore 409836	3 Changi North Street 1 Singapore 498824	54/56 Sungei Kadut Loop Singapore 729477	18C Sungei Kadut Street 4 Singapore 729066	18 Sungei Kadut Street 2 Singapore 729236	North Fang Xun Road, Hecheng Street (Fuwan), Gaoming District, Foshan, Guangzhou, China
Description	6-storey light industrial building	2-storey purpose-built detached warehouse	1-storey warehouse	Warehousing/ Production premises and 2-storey ancillary building	Under redevelopment into a 7-storey industrial building	Warehouse premises and 5-storey dormitory
Purpose	Corporate headquarters and main showroom	Main warehouse	Warehouse	Marble processing facility	Warehouse	Warehouse
Tenure of land	Expiring 14 September 2039	Expiring 29 February 2029 with an option for a further term of 30 years subject to conditions	Expiring 16 January 2023	Expiring 15 September 2025	Expiring 30 September 2043	Expiring 30 December 2050
Area ('000 square feet) - Land - Gross floor or net lettable area	 54 130	 113 151	 105 69	 56 43	 107 300	 441 287
Purchase price (S$000)	9,800	10,000	2,502	1,430	8,650	10,000
Development and directly attributable costs (S$000)	11,752	13,787	-	2,938	32,402	100
Book value as at 31 December 2015 (S$000)	19,493	22,321	1,346	3,570	41,052	10,354
Open market valuation (S$000)	46,000	33,000	6,600	5,800	Not meaningful as property is under redevelopment	10,645

Subsequent Developments

There are no significant developments subsequent to the release of the Group's and Company's preliminary financial statements, as announced on 16 February 2016, which would materially affect the Group's and the Company's operating and financial performance for the reporting year ended 31 December 2015 as at the date of this report.

CORPORATE INFORMATION

BOARD OF DIRECTORS
Ong Beng Chye
Independent Non-Executive Chairman

Low Kok Ann
Executive Director and CEO

Datuk Edward Lee Ming Foo, JP
Non-Independent Non-Executive Director

Low See Ching
Non-Independent Non-Executive Director

Cheah Yee Leng
Non-Independent Non-Executive Director

Yeow Wai Siaw
Non-Independent Non-Executive Director

Terrance Tan Kong Hwa
Independent Director

Chow Wen Kwan Marcus
Independent Director

AUDIT COMMITTEE
Ong Beng Chye Chairman
Terrance Tan Kong Hwa
Chow Wen Kwan Marcus

NOMINATING COMMITTEE
Terrance Tan Kong Hwa Chairman
Ong Beng Chye
Chow Wen Kwan Marcus

REMUNERATION COMMITTEE
Chow Wen Kwan Marcus Chairman
Terrance Tan Kong Hwa
Ong Beng Chye

COMPANY SECRETARY
Tay Eng Kiat Jackson

REGISTERED OFFICE
105 Eunos Avenue 3
Hafary Centre
Singapore 409836
Tel: (65) 6383 2314
Fax: (65) 6253 4496

SHARE REGISTRAR
Boardroom Corporate &
Advisory Services Pte. Ltd.
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623

SHARE LISTING
Hafary Holdings Limited was incorporated on 6 October 2009 and listed in Catalist on 7 December 2009. The Company’s listing was upgraded to the SGX Mainboard with effect from 18 June 2013.
Stock code:
5VS (SGX)
HAFA.SP (Bloomberg)
HFRY.SI (Reuters)

INDEPENDENT AUDITORS
RSM Chio Lim LLP
8 Wilkie Road
#03-08 Wilkie Edge
Singapore 228095

Partner-in-charge: Lam Chien Ju
Effective from reporting year ended
31 December 2015

INTERNAL AUDITORS
BDO LLP
21 Merchant Road #05-01
Singapore 058267

LEGAL ADVISORS
TSMP Law Corporation
6 Battery Road, Level 41
Singapore 049909

PRINCIPAL BANKERS
Australia and New Zealand
Banking Group Ltd
10 Collyer Quay #30-00
Ocean Financial Centre
Singapore 049315

DBS Bank Limited
12 Marina Boulevard
DBS Asia Central
Marina Bay Financial Centre Tower 3
Singapore 018982

Malayan Banking Berhad
2 Battery Road
Maybank Tower
Singapore 049907

RHB Bank Berhad
90 Cecil Street #12-00
RHB Bank Building
Singapore 069531

Standard Chartered Bank
8 Marina Boulevard
Marina Bay Financial Centre Tower 1
Level 27
Singapore 018981

United Overseas Bank Limited
80 Raffles Place
UOB Plaza 1
Singapore 048624

GROUP STRUCTURE

HAFARY HOLDINGS LIMITED
UEN: 200918637C

100%
HAFARY PTE LTD
UEN: 198001531R

Singapore

70% **Surface Project Pte. Ltd.** UEN: 200500263N	90% **Surface Stone Pte. Ltd.** UEN: 200906485D	100% **Wood Culture Pte. Ltd.** UEN: 201007442H
100% **Hafary Centre Pte. Ltd.** UEN: 201026113W	100% **Marble Trends Pte. Ltd.** UEN: 201309646E	46% (Subsidiary) **World Furnishing Hub Pte. Ltd.** UEN: 201317854K
100% (Incorporated on 19 June 2015) **Hafary Trademarks Pte. Ltd.** UEN: 201526416M	50% (Joint Venture) **Melmer Stoneworks Pte. Ltd.** UEN: 201216143E	51% (Incorporated on 5 February 2016) **Hafary Balestier Showroom Pte Ltd** UEN: 201603055M
100% **Hafary Vietnam Pte. Ltd.** UEN: 201120831H		100% **Hafary International Pte. Ltd.** UEN: 201305688M

Overseas

49% (Associate - Vietnam) **Viet Ceramics International Joint Stock Company** Business Registration Certificate No.: 0311028311	100% (Subsidiary - People's Republic of China) **Foshan Hafary Trading Co., Limited** Registration No.: 440600400022964

CORPORATE GOVERNANCE STATEMENT

The Board of Directors (the "**Board**") of Hafary Holdings Limited (the "**Company**") is committed to ensure and maintain a high standard of corporate governance within the Company and its subsidiaries (the "Group"). This report describes the corporate governance framework and practices of the Company with specific reference to the principles and guidelines set out in the Code of Corporate Governance 2012 (the "**Code**").

▶ **Guideline 1 of the Code: THE BOARD'S CONDUCT OF AFFAIRS**

Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

▶ Guideline 1.1 of the Code: Role of the Board

The Board is made up of the following members:

Mr Ong Beng Chye	Non-Executive Chairman and Independent Director (Appointed as Independent Non-Executive Chairman on 6 March 2015)
Mr Low Kok Ann	Executive Director and Chief Executive Officer ("CEO") (Relinquished the role of Executive Chairman on 6 March 2015)
Datuk Edward Lee Ming Foo, JP*	Non-Executive Director
Mr Low See Ching	Non-Executive Director
Ms Cheah Yee Leng*	Non-Executive Director
Mr Yeow Wai Siaw*	Non-Executive Director
Mr Terrance Tan Kong Hwa	Independent Director
Mr Chow Wen Kwan Marcus	Independent Director

*Appointed as Non-Executive Directors on 6 March 2015

The principal duties of the Board, apart from its statutory responsibilities, are:

- Providing entrepreneurial leadership, setting the strategic direction and overall corporate policies (including ethical standards) of the Group;
- Overseeing the business and affairs of the Group, establishing the strategies and financial objectives to be implemented by the management and monitoring the performance of the management;
- Ensuring the adequacy of internal controls, risk management processes and financial reporting and compliance;
- Monitoring financial performance, including approval of the full year and quarterly financial reports of the Group;
- Approving corporate actions, major investment and funding decisions of the Group; and
- Identifying key stakeholders and balancing the demands of the business with those of the key stakeholders and ensuring the obligations to key stakeholders (including shareholders) are met.

▶ Guideline 1.2 of the Code: Directors to discharge duties and responsibilities in the interests of the Company

At least one-third of the Board is made up of independent directors who have the appropriate core competencies and diversity of experience to enable them, in their collective wisdom, to contribute effectively to the Company. All directors are expected, in the course of carrying out their duties, to act in good faith, provide insights and consider the interests of the Group.

The Board oversees the management of the Group. It focuses on strategies and policies, with particular attention paid to growth and financial performance. It delegates the formulation of business policies and day-to-day management to the Executive Director and the management.

While the Board remains responsible for providing oversight in the preparation and presentation of the financial statements, it has delegated to the management the task of ensuring that the financial statements are drawn up and presented in compliance with the relevant provisions of the Singapore Companies' Act, Chapter 50 and the Singapore Financial Reporting Standards.

CORPORATE GOVERNANCE STATEMENT

Board Committees, namely Audit Committee (AC), Nominating Committee (NC) and Remuneration Committee (RC) and Hafary Performance Share Plan Committee have been constituted to assist the Board in the discharge of specific responsibilities. These Committees review or make recommendations to the Board on matters within their specific terms of reference.

▶ Guideline 1.3 of the Code: Disclosure on the delegation of authority by the Board

Board meetings are conducted on a quarterly basis and ad-hoc meetings are held whenever the Board's guidance or approval is required. Dates of Board, Board committees and annual general meetings are scheduled in advance in consultation with the directors to assist them in planning their attendance. A director who is unable to attend a Board meeting in person can still participate in the meeting via telephone conference, video conference or other similar communication. Board meeting can be conducted by instantaneous telecommunication device under the Company's Constitution.

▶ Guideline 1.4 of the Code: Board to meet regularly

Attendance of the directors at scheduled meetings of the Board and Board Committees during the financial period from 1 July 2014 to 31 December 2015 ("FY2015") is as follows:-

		Board Committees		
	Board	**AC**	**NC**	**RC**
Number of scheduled meetings held	6	6	1	2
Name of directors				
Mr Ong Beng Chye	6	6	1	2
Mr Low Kok Ann	6	6*	1*	2*
Mr Low See Ching	5	5*	1*	2*
Datuk Edward Lee Ming Foo, JP#	2	2*	-	-
Ms Cheah Yee Leng#	3	3*	-	1*
Mr Yeow Wai Siaw#	3	3*	-	1*
Mr Terrance Tan Kong Hwa	6	6	1	2
Mr Chow Wen Kwan Marcus	6	6	1	2

*Attended by invitation
#Appointed as Directors of the Company on 6 March 2015.

Important matters concerning the Group can also put to the Board and Board committees for decision by way of written resolutions.

The Company has adopted internal guidelines setting forth matters that require the Board's approval. Matters which are specifically reserved to the Board for approval are:

▶ Guideline 1.5 of the Code: Matters requiring Board's approval

a) Appointment of Board members and senior management staff
b) Major investments decisions, including new investments and increase in investment in businesses and subsidiaries
c) Any divestments by any of the Group's companies
d) Major funding decisions, including share issuances
e) Interim and final dividends and other returns to shareholders
f) All commitments to borrowing facilities from banks and financial institutions by the Company
g) Interested person transactions
h) Acquisitions and disposal of assets exceeding the Board's authority limit
i) Expenditures exceeding the Board's authority limit

The Group also has internal guidelines which set out, among others, the authorisation limits granted to the management for approval of capital and operating expenditures.

The directors are informed via electronic mails and briefed during Board meetings of new or revision in laws and regulations which are relevant to the Group. Changes to the financial reporting standards are monitored closely by the management.

▶ Guideline 1.6 of the Code: Regular and appropriate trainings for directors

CORPORATE GOVERNANCE STATEMENT

Briefings and updates provided for directors in FY2015:

- At AC meetings, the external auditors briefed the AC members on developments in financial reporting standards.
- The CEO updates the Board at each Board meeting on business and strategic developments of the Company, developments in the tile industry and the relevant social and economic environment which the Company operates in.

Newly-appointed directors will be briefed on the business and organisation structure of the Group and its strategic plans and objectives. Orientation includes visits to the Group's key premises to familiarise themselves with the Company's operations. Such visit also allows the new director to get acquainted with senior management, thereby facilitating board interaction and independent access to senior management. Appropriate training for shall be arranged upon request by newly-appointed directors to ensure that newly appointed directors are fully aware of their responsibilities and obligations as directors.

Executive Directors are appointed to the Board by way of service agreement setting out the scope of their duties and obligations. The Company will provide formal letter setting out duties and responsibilities to newly appointed directors.

▶ Guideline 1.7 of the Code: Formal letter of appointment to directors setting out their duties and responsibilities

There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

▶ Guideline 2 of the Code: BOARD COMPOSITION AND GUIDANCE

There is a strong independent element on the Board with independent directors constituting at least one-third of the Board. Currently, the Board consists of eight directors of whom three are independent.

▶ Guideline 2.1 and 2.2 of the Code:
Strong and independent element on the Board

The criterion for independence is based on the definition given in the Code. According to the "Code", an "independent" director is one who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the Company.

▶ Guideline 2.3 and 2.4 of the Code:
Independence of directors

The Independent Directors were first appointed on 10 November 2009. Each Independent Director was required to complete a confirmation of independence, drawn up according to the guidelines stated in the Code, to confirm his independence. He shall disclose to the Board any relationships or circumstances which are likely to affect, or could appear to affect, his judgement. The independence of each director is reviewed annually by NC. Based on the annual review of the independence of the Independent Directors according to the guidelines stated in the Code, the NC ascertained that all Independent Directors are independent.

None of the Independent Directors have served on the Board beyond nine years from the date of his first appointment.

The Board has examined its size and is of the view that it is an appropriate size for efficient and effective decision-making, taking into account the scope and nature of the operations of the Company. The NC is of the view that no individual or small group of individuals dominate the Board's decision-making process.

▶ Guideline 2.5 of the Code: Composition and size of the Board

The Company has a good balance of directors with a wide range of skills, experience and qualities in the fields of operations, management, financial, legal and accounting.

▶ Guideline 2.6 of the Code: Diversity of skills and core competencies of the Board and Board committees

CORPORATE GOVERNANCE STATEMENT

Each director has been appointed on the strength of his calibre, experience, grasp of corporate strategy and potential to contribute to the Company and its businesses. Each director brings valuable insights from different perspectives, such as strategic planning, management, finance, accounting and legal, vital to the strategic interests of the Company. Profiles of the directors are found in the "Board of Directors" section of the Annual Report. The Board considers that the directors possess the necessary competencies to provide the management with a diverse and objective perspective on issues so as to lead and govern the Company effectively. In FY2015, the Board included a female director, Ms. Cheah Yee Leng.

The Non-Executive Directors and Independent Directors provide advice on strategic matters and review the performance of the management in meeting agreed financial and non-financial targets and monitor reporting of performance.

▶ Guideline 2.7 and 2.8 of the Code:
Role of non-executive directors and non-executive directors to meet regularly

To facilitate a more effective check on the management, the Independent Directors meet at least once a year with the internal and external auditors without the presence of the management. Where necessary, the Company co-ordinates informal meeting sessions for Non-Executive Directors and Independent Directors to meet without the presence of the management.

There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

▶ Guideline 3 of the Code:
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr Ong Beng Chye was appointed as the Independent Non-Executive Chairman of the Company on 6 March 2015. Mr Low Kok Ann is the Executive Director and CEO of the Company.

▶ Guideline 3.1 of the Code:
Chairman and CEO should be separate persons

Prior to 6 March 2015, the Company has not created a separate CEO position as the Board is of the view that the Board composition was appropriate and effective for purposes for which the Board's roles and responsibilities are set up. The Board was of the view that with the establishment of the three Board Committees and that independent directors form more than half of the composition of the Board, there are adequate safeguards in place to prevent an uneven concentration of power and authority in a single individual.

As the Independent Non-Executive Chairman, Mr Ong Beng Chye, ensures that corporate information is adequately and timely disseminated to all directors to facilitate effective contribution of all directors. He promotes a culture of openness and debate at the Board and ensures that adequate time is allocated for discussion of all strategic issues. The Independent Non-Executive Chairman is assisted by the Board Committees and the internal auditors who report to the Audit Committee in ensuring compliance with the Company's guidelines on corporate governance.

▶ Guideline 3.2 of the Code:
Role of the Chairman

As the CEO, Mr Low Kok Ann, is responsible for the overall management, operations and charting the corporate and strategic direction, including our sales, marketing and procurement strategies.

The Board appointed Mr Ong Beng Chye as the Lead Independent Director (Lead ID) on 10 November 2009 to lead and coordinate the activities of the Independent Directors. The Lead ID aids the Independent Directors to constructively challenge and assist in the development of proposals on strategy, review the performance of the management in meeting agreed goals and objectives, and monitor the reporting of performance.

▶ Guideline 3.3 of the Code:
Appointment of lead independent director

The Lead ID also coordinates sessions for the Independent Directors to meet without the presence of other directors, if required. He shall provide feedback gathered from such meetings to the Executive Chairman, if necessary.

▶ Guideline 3.4 of the Code:
Periodic meeting of independent directors

Mr Ong Beng Chye was appointed as the Independent Non-Executive Chairman of the Company on 6 March 2015.

CORPORATE GOVERNANCE STATEMENT

▶ **Guideline 4 of the Code: BOARD MEMBERSHIP**

There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

▶ Guideline 4.1 and 4.2 of the Code:
NC to recommend all Board appointments and on relevant matters

The NC comprises Mr Terrance Tan Kong Hwa, Mr Ong Beng Chye and Mr Chow Wen Kwan Marcus, all of whom are non-executive and independent directors. The Chairman of the NC is Mr Terrance Tan Kong Hwa.

The key terms of reference of the NC are as follows:

a) Make recommendation to the Board on the appointment and re-appointment of the directors having regard to each director's competencies, commitment, contribution and performance.
b) Decide how the Board's performance is to be evaluated and propose objective performance criteria, subject to the approval of the Board, which addresses how the Board has to enhance long-term shareholders' value.
c) Assess the effectiveness of the Board as a whole and its Board Committees and to assess the contribution by the Chairman and each individual director to the effectiveness of the Board
d) Decide whether the director is able to and has been adequately carrying out his duties as director of the Company.
e) Make recommendations to the Board on training and professional development programme for the Board.
f) Determining annually whether or not a director is independent.
g) Ensure that all Directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years.

Pursuant to Article 104 of the Company's Constitution, at least one-third of the Company's directors are required to retire from office at every Annual General Meeting ("AGM") of the Company. Every Director must retire from office at least once every three years and are eligible for re-election.

The NC has recommended that the following directors be put forward for re-election at the forthcoming AGM pursuant to Article 104 of the Company's Constitution:

Mr Low See Ching
Mr Terrance Tan Kong Hwa

Pursuant to Article 108 of the Company's Constitution, any director so appointed shall hold office only until the next AGM and shall then be eligible for re-election.

The NC has recommended that the following directors, who have been appointed as Directors of the Company on 6 March 2015, be put forward for re-election at the forthcoming AGM:

Datuk Edward Lee Ming Foo, JP
Ms Cheah Yee Leng
Mr Yeow Wai Siaw

The Board has accepted this recommendation and being eligible, Mr Low See Ching, Mr Terrance Tan Kong Hwa, Datuk Edward Lee Ming Foo, JP, Ms Cheah Yee Leng and Mr Yeow Wai Siaw will be offering themselves for re-election at the forthcoming Annual General Meeting.

Please refer to "Board of Directors" section of the Annual Report for details and information of the above directors.

CORPORATE GOVERNANCE STATEMENT

The NC is charged with the responsibility of determining annually whether or not a director is independent. Each Independent Director is required to complete a confirmation of independence, drawn up according to the guidelines stated in the Code, to confirm his independence. He shall disclose to the Board any relationships or circumstances which are likely to affect, or could appear to affect, his judgement. Based on the annual review of the independence of the Independent Directors according to the guidelines stated in the Code, the NC ascertained that all independent directors are independent.

▶ Guideline 4.3 of the Code: Determination of directors' independence

When a director has multiple board representations, the NC also considers whether or not the director is able to and has adequately carried out his duties as a director of the Company.

▶ Guideline 4.4 of the Code: Multiple board representation

The NC believes that putting a maximum limit on the number of directorships a director can hold is arbitrary, given that time requirements for each vary, and thus should not be prescriptive. A sufficient safeguard is requiring each director annually, to confirm to the NC of his ability to devote sufficient time and attention to the Group's affairs, having regard to all his other commitments.

The NC is satisfied that sufficient time and attention were given by the directors to the affairs of the Company during FY2015, notwithstanding that they hold directorships in other private and listed companies and have other principal commitments, and will continue to do so in FY2016

The Board of the Company does not comprise any alternate director.

▶ Guideline 4.5 of the Code: Avoidance of appointment of alternate directors

When the need for a new director to replace a retiring director arises, or where it is considered that the Board would benefit from the services of a new director with particular skills, the NC, in consultation with the Board, determines the selection criteria.

▶ Guideline 4.6 of the Code: Description of process for selection, appointment and re-appointment of directors to be disclosed

Candidates would first be sourced through an extensive network of contacts and identified based on the needs of the Group and relevant expertise and experience required. The NC may engage recruitment consultants to undertake research on or assess candidates for new position on the Board, or to engage such other independent experts, if necessary. After the Board has interviewed the candidates, the NC would further shortlist and recommend the candidates for appointment to the Board. The Board has the final discretion in appointing new directors.

The NC recommends the appointment and re-election of directors to the Board for approval based on the following criteria:

a) Expertise and experience of the candidate and whether they have discharged their duties adequately as directors of the Company, officers of other companies and/ or professionals in the area of expertise
b) Independence of the candidate (for Independent Directors)
c) Appointment or re-appointment will not result in non-compliance with any composition requirements for the Board and Board Committees
d) Whether the candidate is a fit and proper person in accordance with Monetary Authority of Singapore's (MAS) fit and proper guidelines, which broadly take into account the candidate's honesty, integrity and reputation; his competence and capability; and financial soundness.

Each member of the NC shall abstain from voting on any resolution in respect of the assessment of his performance or re-nomination as a director.

Key information in respect of the directors' academic and professional qualifications, date of first appointment as a director, date of last re-appointment as a director, present directorships or chairmanship and those held over the preceding three years in other listed companies and other principal commitments are set out in the "Board of Directors" section of the Annual Report. In addition, information on shareholdings in the Company held by each director is set out in the Directors' Report in "Financial Statements" section of the Annual Report.

▶ Guideline 4.7 of the Code: Key information regarding directors

CORPORATE GOVERNANCE STATEMENT

There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

▶ Guideline 5 of the Code: BOARD PERFORMANCE

The NC and the Chairman of the Board have implemented a self-assessment process that requires each director to assess the performance of the Board as a whole. These assessments are carried out by the NC at the end of each financial year to identify strengths and shortcomings and thereby, make recommendations to strengthen the effectiveness of the Board as a whole.

▶ Guideline 5.1, 5.2 and 5.3 of the Code: Assessment of effectiveness of the Board and Board committees and assessing the contribution by the Chairman and each director

The NC assesses the Board's effectiveness as a whole by completing a Board Performance Evaluation Checklist. The checklist takes into consideration factors such as the Board and Board Committees' structure, conduct of meetings, risk management and internal control and the Board's relationship with the management. The NC also assesses the Board's performance based on a set of quantitative criteria and financial performance indicators as well as share price performance.

The NC has reviewed the overall performance of the Board in terms of its role and responsibilities and the conduct of its affairs as a whole for the financial year. It is of the view that the performance of the Board as a whole has been satisfactory.

The NC met once and conducted its assessment in respect of FY2015.

In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

▶ Guideline 6 of the Code: ACCESS TO INFORMATION

The management recognises that the flow of complete, adequate and timely information on an on-going basis to the Board is essential to the Board's effective and efficient discharge of its duties.

▶ Guideline 6.1 and 6.2 of the Code: Complete, adequate and timely information for directors to make informed decisions; Independent access to the management by the Board

During FY2015, the management has informed the Board of all material events as and when they occurred and sought advice and/ or approval from the Board on major transactions before they are entered into.

The management has provided the Board in advance with quarterly management accounts, annual budget and relevant background information and materials relating to the matters that were discussed at Board meetings. This enables the discussion during the meetings to focus on questions that directors may have. Any additional materials or information requested by the directors is promptly furnished. During the Board meetings, management staff who are able to explain and provide insights to the matters to be discussed are invited to make the appropriate presentations and answer any queries from the directors.

Directors have separate and independent access to the management via telephone, email and face-to-face meetings.

Directors have separate and independent access to the Company Secretary. The role of the Company Secretary is clearly defined and includes responsibility for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The responsibilities of the Company Secretary include:

▶ Guideline 6.3 of the Code: Separate and independent access to the company secretary

a. Administers, attends and prepares minutes of all board meetings;
b. Assists the Board in ensuring that the Company complies with the relevant requirements of the Companies' Act and Listing Rules;
c. Advising the Board on all corporate governance matters;
d. Assists the Executive Chairman in ensuring good information flows within the Board, Board Committees and between the management and the independent directors; and
e. Communication channel between the Company and SGX-ST.

CORPORATE GOVERNANCE STATEMENT

The Company Secretary attends all Board meetings and Committee meetings and is responsible to ensure that Board procedures are followed.

The appointment and removal of the Company Secretary are subject the approval of the Board.

▶ Guideline 6.4 of the Code: Appointment and removal of the company secretary

The Board takes independent professional advice as and when necessary concerning any aspect of the Group's operations or undertakings in order to discharge its responsibilities effectively. Any cost of obtaining professional advice will be borne by the Company.

▶ Guideline 6.5 of the Code: Procedure for Board to take independent professional advice

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

▶ Guideline 7 of the Code: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

The RC comprises Mr Chow Wen Kwan Marcus, Mr Ong Beng Chye and Mr Terrance Tan Kong Hwa, all of whom are non-executive and independent directors. The Chairman of the RC is Mr Chow Wen Kwan Marcus.

▶ Guideline 7.1 and 7.2 of the Code:
RC to consist of entirely non-executive directors; RC to recommend remuneration framework and packages

The key terms of reference of the RC are as follows:

a. Review and recommend to the Board a general framework of remuneration for the Board and key management personnel;
b. Review and recommend to the Board the specific remuneration packages for each director and key management personnel;
c. Review and recommend to the Board the terms of renewal of the service agreements of Executive Directors;
d. Determine the appropriateness of the remuneration of non-executive directors taking into consideration their effort, time spent, responsibilities and level of contribution;
e. Administer the Hafary Performance Share Plan and any other share option scheme established from time to time for the Directors and the management; and
f. Consider the disclosure requirements for directors' and key management personnel's remuneration as required by the SGX-ST and according to the Code.

The recommendations of the RC shall be submitted for endorsement by the Board. The RC covers all aspects of remuneration, including directors' fees, salaries, allowances, bonuses, awards and benefits-in-kind. Each RC member shall abstain from voting on any resolutions in respect of his remuneration package.

The RC members are familiar with management compensation matters as they manage their own businesses and/ or are holding directorships in other listed companies. If necessary, the RC may seek professional advice on remuneration of all directors.

▶ Guideline 7.3 of the Code: RC to seek expert advice

The Non-Executive Directors and Independent Directors do not have service agreements with the Company. The Non-Executive Directors and Independent Directors received directors' fees which are recommended by the Board for approval at the Company's Annual General Meeting.

▶ Guideline 7.4 of the Code: RC to review and ensure that contracts of service contain fair and reasonable termination clauses which are not overly generous

The Executive Director does not receive director's fees and is paid based on his service agreement with the Company. In setting the remuneration packages of the Executive Director, the Company takes into account the performance of the Group and that of the Executive Director which is aligned with long term interest of the Group. The RC has reviewed and approved the service agreement of the Executive Director which is valid for 3 years. The current service agreement is entered into with the Company on 27 January 2014. Service tenure is not excessively long and there is no onerous termination clause.

Key management personnel's remuneration is set in accordance with a remuneration framework comprising basic salary (including a variable bonus and benefits-in-kind).

CORPORATE GOVERNANCE STATEMENT

The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

▶ Guideline 8 of the Code: LEVEL AND MIX OF REMUNERATION

Remuneration of Executive Director and key management personnel comprises a fixed component and a variable component. The fixed component comprises basic salary plus other fixed allowances. The variable component which comprises bonuses is linked to the performance of the Company and the individual. In FY2015, variable or performance related income/ bonus made up 23% to 40% of the total remuneration of each executive director and key management personnel. The remuneration package is designed to enable the Company to stay competitive and allows the Company to better align executive compensation with shareholder value creation.

▶ Guideline 8.1 of the Code: Executive directors and key management personnel's remuneration to be linked to corporate and individual performance and aligned with interests of shareholders

In setting remuneration packages, the RC ensures that the directors are adequately but not excessively remunerated as compared to the market employment conditions. The RC also ascertained that Independent Directors are not overly-compensated to the extent that their independence may be compromised.

Unless otherwise defined, all terms not defined herein shall be as defined in the rules of the Hafary Performance Share Plan ("Hafary PSP").

▶ Guideline 8.2 of the Code: Long-term incentive schemes are encouraged

The Hafary PSP is intended to give the Company greater flexibility in tailoring reward and incentive packages for its directors and employees, and aligning their interest with those of the Company's shareholders.

▶ Guideline 9.5 of the Code: Details of employee share schemes

Awards granted under the Hafary PSP will be principally (i) performance-based and (ii) loyalty-based. The performance targets to be set are intended to be broad-based and shall take into account both the medium-term corporate objectives of the Group and the individual performance of the Participant. The medium-term corporate objectives include market competitiveness, quality of returns, business growth and productivity growth. The performance targets set are based on medium-term corporate objectives, which include revenue growth, growth in earnings and return on investment. Additionally, the Participant's length of service with the Group, achievement of past performance targets, extent of value-adding to the Group's performance and development and overall enhancement to Shareholder value, *inter alia*, will be taken into account. The Hafary PSP may also have an extended vesting period, that is, the Awards will also incorporate a time-based service condition, to encourage Participants to continue serving the Group beyond the achievement date of the pre-determined performance targets.

The Hafary PSP was approved by the shareholders of the Company at the AGM held on 25 October 2013, and is administered by the Plan Committee, comprising the Remuneration Committee and the CEO authorised and appointed by the Board.

Names of members of the Plan Committee:

Mr Chow Wen Kwan Marcus	Chairman
Mr Ong Beng Chye	Member
Mr TerranceTan Kong Hwa	Member
Mr Low Kok Ann	Member

Participants in the Hafary PSP will receive awards which represent the right to receive fully paid shares of the Company free of charge, upon satisfying the Performance Condition (determined at the discretion of the Plan Committee) and provided that the relevant Participant has continued to be a Group Executive from the Award Date up to the end of the Performance Period. Employees who are Controlling Shareholders or Associates of Controlling Shareholders shall not participate in the Hafary PSP.

During the reporting year, the number of performance shares granted, vested and cancelled under the Hafary PSP are as follows:

	Number of Hafary performance shares				
Granting date	**As at 1 July 2014**	**Granted during the year**	**Vested during the year**	**Cancelled / lapsed during the year**	**As at 31 December 2015**
1 August 2014	–	1,550,000	–	(250,000)	1,300,000

CORPORATE GOVERNANCE STATEMENT

On 1 March 2016, Award comprising 250,000 ordinary shares was granted to a Group Executive who was not Executive Director or Independent Director.

The number of performance shares vested at the vesting date are dependent on the level of achivement against the pre-set performance conditions and targets.

As at the date of this Annual Report, no Awards were Released and no Awards were granted to the Independent Directors of the Company. No shares were granted to any Directors of the Company, controlling shareholders and their associates pursuant to the vesting of the Awards under the PSS. No employee in the Group has received shares which, in aggregate, represent 5% or more of the aggregate of the total number of shares available under the Hafary PSP.

All Non-Executive Directors and Independent Directors have no service agreements with the Company and do not receive any remuneration from the Company. They are paid directors' fees, which are determined by the Board based on contribution, effort, time spent and responsibilities. The directors' fees are subject to approval by the shareholders at each AGM. Currently, the Company does not have any scheme to encourage Non-Executive Directors and Independent Directors to hold shares in the Company.

▶ Guideline 8.3 of the Code:
Remuneration of non-executive directors dependent on contribution, effort, time spent and responsibilities

Service agreement of the Executive Director contains clauses to allow the Company to reclaim variable components of remuneration in exceptional circumstances.

▶ Guideline 8.4 of the Code:
Contractual provisions to allow the Company to reclaim incentive components of remuneration in exceptional circumstances

Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

▶ Guideline 9 of the Code:
DISCLOSURE ON REMUNERATION

The Board has not included a separate annual remuneration report to shareholders in the Annual Report on the remuneration of directors and the key management personnel (who are not directors or the CEO of the Company). The Board is of the view that matters which are required to be disclosed in such annual remuneration report have already been sufficiently disclosed in this Corporate Governance Report and in the financial statements of the Company.

▶ Guideline 9.1 and 9.5 of the Code:
Annual remuneration report

There are no termination, retirement and post-employment benefits granted to directors, the CEO or the top five key management personnel.

In view of confidentiality of the remuneration policies of the Company, the Board is of the opinion that it is in the best interests of the Group to disclose the remuneration of its directors and key management personnel in salary bands.

▶ Guideline 9.2 and 9.3 of the Code:
Remuneration of directors and top five key management personnel

A breakdown showing the band and mix of each director's remuneration for the FY2015 is as follows:

Remuneration band and name of director	Directors' fee (%)	Salary, CPF and allowance (%)	Variable or performance-related bonus (%)	Total (%)
S$1,250,000 to S$1,499,999				
Mr Low Kok Ann	-	30	70	100
Below S$250,000				
Datuk Edward Lee Ming Foo, JP	100	-	-	100
Mr Low See Ching	100	-	-	100
Ms Cheah Yee Leng	100	-	-	100
Mr Yeow Wai Siaw	100	-	-	100
Mr Ong Beng Chye	100	-	-	100
Mr Terrance Tan Kong Hwa	100	-	-	100
Mr Chow Wen Kwan Marcus	100	-	-	100

CORPORATE GOVERNANCE STATEMENT

A breakdown showing the band and mix of remuneration of each top 5 key management personnel's (who are not directors or CEO of the Company)* for FY2015 is as follows:

Remuneration band and name of key management personnel	Fixed salary (%)	Variable or performance-related bonus (%)	Performance shares awarded (%)	Total (%)
S$250,000 to S$499,999				
Mr Goh Keng Boon Frank	64	30	6	100
Mr Koh Yew Seng Mike	68	23	9	100
Mr Cheong Ching Hing Simon	69	23	8	100
Mr Tay Chye Heng Stephen	72	23	5	100
Below S$250,000				
Mr Tay Eng Kiat Jackson	60	40	–	100

*This is in accordance with the disclosure contained in Note 3C Key Management Compensation of the "Financial Report" section.

The total remuneration paid to the top five key management personnel (who are not directors or the CEO of the Company) for FY2015 was S$1,472,000.

"Immediate family member" means spouse, child, adopted child, step-child, brother, sister and parent. There is no employee of the Company and its subsidiaries who was an immediate family member of a director or the CEO and whose remuneration exceeded S$50,000 during FY2015.

▶ Guideline 9.4 of the Code: Disclosure of remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceeds $50,000

Short-term incentive of the Executive Director and key management personnel takes the form of annual variable bonus payment and is linked to the performance of the Company and the individual.

▶ Guideline 9.6 of the Code: Disclosure of information on link between remuneration paid to executive directors and key management personnel, and performance

For Executive Director, amount of variable bonus payment (i.e. performance bonus) for a financial period is dependent on the amount of the Group's profit before income tax achieved as set out below:-

Profit before income tax (PBT)	CEO
Up to S$3 million	1.5%
Above S$3 million and up to S$5 million	S$45,000 plus 3.0% of PBT in excess of S$3 million
Above S$5 million	S$105,000 plus 4.5% of PBT in excess of S$5 million

For FY2015 (an 18-month financial period ended 31 December 2015), a pro-rated formula was applied:-

Profit before income tax (PBT)	CEO
Up to S$4.5 million	1.5%
Above S$4.5 million and up to S$7.5 million	S$67,500 plus 3.0% of PBT in excess of S$4.5 million
Above S$7.5 million	S$157,500 plus 4.5% of PBT in excess of S$7.5 million

The Board is of the view that this quantitative criterion is able to align the Executive Director's interests with shareholders' interests.

CORPORATE GOVERNANCE STATEMENT

The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

▶ **Guideline 10 of the Code: ACCOUNTABILITY**

The Board is accountable to the shareholders for the Company's performance and is mindful of its obligations to furnish timely information and to ensure full disclosure of material information to shareholders in compliance with statutory requirements and the Listing Manual.

▶ Guideline 10.1 of the Code: Board's responsibility to provide balanced and understandable assessment of the Company's performance, position and prospects

The Board provides the shareholders with a balanced and comprehensive explanation and analysis of the Company's performance, position and prospects on a quarterly basis. This responsibility extends to reports to regulators. Financial reports and other price-sensitive information are disseminated to shareholders through announcements via SGXNet, press release and the Company's website. The Board will review and approve, on recommendation of the Audit Committee (if necessary), the financial reports and information before their release. The Company's Annual Report is available on request and accessible on the Company's website.

The Board took steps to ensure compliance with the law and other regulatory requirements as follow:

▶ Guideline 10.2 of the Code: Board to take adequate steps to ensure compliance with legislative and regulatory requirements

a) Regular updates on changes on legislative and regulatory requirements
b) Consultations of legal advisors and other relevant professional parties when undertaking any corporate actions
c) Ensure disclosure obligations are fulfilled by reading relevant sections of Listing Rules and completing the relevant disclosure checklists.
d) Ensure that standard policies and procedures to comply with key rules in the Listing Manual are implemented such as:
   - IPTs
   - Trading of company's shares

The management provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a quarterly basis. Furthermore, the management has been providing the Executive Director with monthly consolidated financial information. However, such monthly consolidated financial information is not reviewed or audited by the external auditors and may not always be reflective of the true and fair view of the financial position of the Group.

▶ Guideline 10.3 of the Code: Management to provide Board with management accounts on a monthly basis

The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

▶ Guideline 11 of the Code: RISK MANAGEMENT AND INTERNAL CONTROLS

The Company is committed to managing all risks in a proactive and effective manner. This requires high quality risk analysis to inform management decisions taken at all levels within the Group. Risk analysis and management is undertaken within the Group as a source of sustainable business benefits and competitive advantage. Managing threats and maximising opportunities will ensure that business objectives are met in the most effective way possible, leading to increased value for the business and its stakeholders.

▶ Guideline 11.1 of the Code: Board to determine levels of risk tolerance and risk policies

The Company has internal processes to determine the level of risk tolerance and ensure the consistency and quality of risk analysis and management. The process includes six elements:

a. Establishing the context
b. Risk identification
c. Risk prioritisation
d. Risk mitigation
e. Risk reporting
f. Risk updates

CORPORATE GOVERNANCE STATEMENT

The purpose of engaging in such a process is to ensure that the goals and objectives of the corporate strategy of the Group are achieved.

The Internal Auditors, BDO LLP, carry out internal audit on the system of internal controls and report the findings to the AC. The External Auditors, RSM Chio Lim LLP, have also carried out, in the course of their statutory audit, an understanding of the key internal controls assessed to be relevant to the audit. In this respect, the AC has reviewed the findings of both the internal and external auditors and will ensure that the Company follows up on the auditors' recommendations raised during the audit process.

▶ Guideline 11.2 of the Code: Board to review the adequacy and effectiveness of the company's risk management and internal control systems, at least annually

The accounts for the year were audited by RSM Chio Lim LLP and the AC has recommended to the Board that RSM Chio Lim LLP be nominated for re-appointment as Auditors at the forthcoming AGM.

The Board conducted a review and assessment of the effectiveness of the Company's risk management and internal control systems including financial, operational, compliance and information technology controls. The assessment was made by discussions with the management of the Company.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, risk assessment reports, assurance from the CEO and Financial Controller and reviews performed by the management, the Board, with the concurrence of the AC, is of the opinion that the system of internal controls (including financial, operational, compliance and information technology controls) and risk management systems in place are adequate and effective in addressing the financial, operational, compliance and information technology risks of the Company as at 31 December 2015.

▶ Guideline 11.3 of the Code: Board to comment on the adequacy and effectiveness of the internal controls

The Board also received assurance from the CEO and Financial Controller that:

a. the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and

b. the Company's risk management and internal control systems are adequate and effective.

The Board and the AC noted that all internal controls contain inherent limitations and no systems of internal controls could provide absolute assurance against the occurrence of material errors, poor judgment in decision making, human error, losses, fraud or other irregularities. The Board will continue its risk assessment process, which is an on-going process, with a view to improve the Company's internal controls system.

The Board is assisted by a separate Enterprise Risk Management Committee in carrying out its responsibility of overseeing the Company's risk management framework and policies.

▶ Guideline 11.4 of the Code: Separate board risk committee

The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

▶ Guideline 12 of the Code: AUDIT COMMITTEE

The Audit Committee (AC) comprises Mr Ong Beng Chye, Mr Terrance Tan Kong Hwa and Mr Chow Wen Kwan Marcus, all of whom are non-executive and independent directors. The Chairman of the AC is Mr Ong Beng Chye.

▶ Guideline 12.1, 12.2 and 12.4 of the Code: Composition of AC; Board to ensure AC members are qualified; Duties of AC

The Board is of the opinion that at least 2 members of the AC, including the AC Chairman, possess the necessary accounting or related financial management qualifications, expertise and experience in discharging their duties.

The key terms of reference of the AC are as follows:

a. Review with the external auditors the audit plan, their evaluation of the Company's internal accounting controls that are relevant to their statutory audit and their audit report;

b. Review with the internal auditors the internal audit plan and their evaluation of the adequacy and effectiveness of the internal controls and accounting system before submission of the results of such review to the Board;
c. Report to the Board at least annually on the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls and risk management policies;
d. Review the financial statements and the independent auditors' report on those financial statements before submission to the Board for approval, focusing in particular, on significant financial reporting issues and judgements, changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/ regulatory requirements;
e. Ensure co-ordination between the external auditors and internal auditors and the management, reviewing the assistance given by the management to the auditors, and discuss problems and concerns, if any, arising from the audits, and any matters which the auditors may wish to discuss (in the absence of the management where necessary);
f. Review and discuss with external and internal auditors (if any), any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our operating results or financial position, and management's response;
g. Make recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors;
h. Review any interested person transactions falling within the scope of Chapter 9 of the Listing Manual;
i. Review any potential conflicts of interest;
j. Undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of our AC; and
k. Generally undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

The role of the AC is to assist the Board in the execution of its corporate governance responsibilities within the established Board references and requirements. The AC also reviews the adequacy of the Company's internal controls and effectiveness of the Company's internal audit function as set out in the guidelines stated in the Code. The services of the internal auditors are utilised to assist the AC in the discharge of its duties and responsibilities.

The AC will review, at least annually, the Group's key financial risk areas (including but not limited to, the Group's cash management policies and cash position, collection of debts, hedging policies and foreign currency transactions (if any) and off-balance sheet items (if any), with a view to providing an independent oversight on the Group's financial reporting. Where the findings are material, the outcome of these reviews will immediately be announced via SGXNET and disclosed in the annual report of the Group.

The AC is authorised to investigate any matter within its terms of reference, and has full access to, and cooperation of, the management. The AC has full discretion to invite any director or management staff to attend its meetings, as well as access to reasonable resources to enable it to discharge its function properly. In performing its functions, the AC also reviews the assistance given by the Company's officers to the independent auditors.

▶ Guideline 12.3 of the Code: AC to have explicit authority to investigate and have full access to management and reasonable resources

The AC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Company's operating results and/ or financial position. In the event that a member of the AC is interested in any matter being considered by the AC, he will abstain from reviewing that particular transaction or voting on that particular transaction.

CORPORATE GOVERNANCE STATEMENT

The AC meets with the internal auditors and external auditors without the presence of the management at least once a year.

▶ Guideline 12.5 of the Code: AC to meet auditors without the presence of management annually

The AC has reviewed all non-audit services provided by the external auditors. The aggregate amount of fees paid/ payable to the external auditors for the FY2015 for audit and other services are S$186,000 and S$57,000 respectively.

▶ Guideline 12.6 of the Code: AC to review independence of external auditors annually

The AC, having considered the nature of services rendered and related charges by the external auditors, is satisfied that the independence of the external auditors is not impaired.

The Company has complied with Rules 712 and 715 of the Listing Manual of the SGX-ST in relation to its independent auditors.

Whistle-Blowing Policy

▶ Guideline 12.7 of the Code: AC to review arrangements for staff and any other persons to raise concerns/ possible improprieties to AC

The Company has in place a whistle-blowing policy where staff of the Company and any other persons can have access to the AC Chairman and members. All concerns about possible improprieties in financial reporting and other matters would be channelled to the AC Chairman and members. The Company will treat all information received confidentially and protect the identity and the interests of all whistle-blowers.

Details of the whistle-blowing policy and arrangements have been made available to all employees of the Company.

The AC shall commission and review the findings of internal investigations it matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on the Group's operating results and/or financial position.

As at date of this report, there were no reports received through the whistle blowing mechanism.

The external auditors present to the AC the audit plan and updates relating to any change of accounting standards which have a direct impact on the financial statements. During the financial year ended 31 December 2015, the adoption of new and/ or revised accounting standards did not result in any substantial changes or significant impact on the Group's financial statements.

▶ Guideline 12.8 of the Code: AC to keep updated on changes to accounting standards

The AC does not comprise a former partner or director at the Company's existing auditing firm.

▶ Guideline 12.9 of the Code: Former partner/director at the Company's auditing firm should not act as AC member

The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

▶ **Guideline 13 of the Code: INTERNAL AUDIT**

The Group outsources its internal audit function to BDO LLP, an international auditing firm, to review key business processes of the Company and its key subsidiaries. The internal auditors, who have unrestricted access to the Group's documents, records, properties and personnel (including the AC), report directly to the AC Chairman. The AC approves the hiring, removal, evaluation and compensation of the internal auditors.

▶ Guideline 13.1 of the Code: IA to report to AC Chairman and to CEO administratively

The Board recognises that it is responsible for maintaining a system of internal controls to safeguard shareholders' interests and the Company's assets, while the management is responsible for establishing and implementing the internal controls procedures. The role of the internal auditor is to assist the AC in ensuring that the controls are effective and functioning as intended, to undertake investigations as directed by the AC and to conduct regular in-depth audits of high risk areas.

▶ Guideline 13.2, 13.4 and 13.5 of the Code: AC to ensure IA is adequately resourced; IA should be appropriately staffed; IA should meet standards set by internally-recognised professional bodies; AC to review adequacy and effectiveness of IA function annually

CORPORATE GOVERNANCE STATEMENT

The internal audit team is staffed with persons with relevant qualifications and experience and carry out its function according to the BDO Global methodology which is consistent with the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The AC is satisfied that the internal audit team has adequate resources to perform its functions, and has appropriate standing within the Group. The internal auditor plans its internal audit schedules in consultation with, but independent of, the management. The audit plan is submitted to the AC for approval prior to the commencement of the internal audit work.

The AC also reviews the activities of the internal audit function on a regular basis, including overseeing and monitoring the implementation of the improvements required on internal control weaknesses identified. The AC reviews, at least annually, the adequacy and effectiveness of the internal audit function of the Company.

▶ Guideline 14 of the Code: SHAREHOLDER RIGHTS

Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

▶ Guideline 14.1 of the Code: Shareholders should be sufficiently informed of changes that would likely materially affect the Company's share price or value

The Company is committed to disclosing as much relevant information as is possible, in a timely, fair and transparent manner, to its shareholders. Material information which would likely materially affect the price or value of the Company's shares is disclosed on a comprehensive, accurate and timely basis via SGXNet. The release of such relevant information timely enables shareholders to make informed decisions in respect of their investment in the Company.

▶ Guideline 14.2 of the Code: Company to ensure shareholders have the opportunity to participate effectively and vote at general meetings

In presenting the annual financial statements and announcements of financial results to shareholders, it is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Company's performance, position and prospects. The financial results for the quarterly and full year are released to shareholders via SGXNet within 45 and 60 days of the quarter-end date and full year-end date respectively.

Notices of general meetings are dispatched to shareholders, together with the annual report and/ or circulars within the time notice period as prescribed by the regulations. At general meetings, shareholders will be given opportunities to voice their views and direct their questions to the Board regarding the Company.

The timely release of financial information and general meeting notice and circulars enables shareholders to prepare and participate effectively and vote at general meetings.

The Chairman of the AC, NC and RC will be present and available to address questions at general meetings. The external auditors will also be present to assist the Board.

▶ Guideline 14.3 of the Code: Company to allow corporations which provide nominee or custodial services to appoint more than two proxies

Pursuant to Article 82 of the Company's Constitution, a shareholder is allowed to appoint not more than two proxies to attend and vote in his/ her place at general meetings. However, corporations which provide nominee or custodial services can appoint more than two proxies to attend and vote at general meetings.

▶ Guideline 15 of the Code: COMMUNICATION WITH SHAREHOLDERS

Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

▶ Guideline 15.1 of the Code: Company to devise effective investor relations policy to regularly convey pertinent information

The Company recognises that open communication is essential and has established an investor relations policy for communicating with shareholders and other audiences in the finance and investment community. This policy aims to ensure that relevant information about the Group's activities is communicated to legitimately interested parties subject to any overriding considerations of business confidentiality and cost.

CORPORATE GOVERNANCE STATEMENT

The Board is mindful of the obligation to provide shareholders with information on all major developments that affect the Group in accordance with the Listing Rules and the Companies' Act, Chapter 50. Information is communicated to shareholders on a timely basis through:

▶ Guideline 15.2 of the Code: Company to disclose information timely through SGX and other channels

a. Announcements and press releases via SGXNet;
b. Company's website (www.hafary.com.sg); and
c. Annual reports

The investor relations function is overseen by the Operation Director. The management regularly communicates with the analysts and investors through email, telephone or face-to-face dialogues to update them on the latest corporate development and address their queries throughout the year.

▶ Guideline 15.3 and 15.4 of the Code: Board to maintain regular dialogue with shareholders; Board to disclose the steps taken to solicit and understand shareholders' views

The Company provided numerous opportunities for communication with the shareholders, investors and other stakeholders during FY2015 as follows:

a. Annual General Meeting
b. Update on corporate developments via SGXNet
c. Press release
d. Analysts' briefing

The Company does not have a formal dividend policy. The form, frequency and amount of future dividend of the Company's shares will depend on the earnings, financial position, results of operations, capital needs, plans for expansion, and other factors as the Board may deem appropriate.

▶ Guideline 15.5 of the Code: Company to have dividend payment policy

During FY2015, the Company had declared and paid three interim dividends (tax exempt one-tier) totalling 2.0 cents per ordinary share.

Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

▶ Guideline 16 of the Code: CONDUCT OF SHAREHOLDER MEETINGS

The Company's Constitution allows a member entitled to attend and vote to appoint not more than 2 proxies to attend and vote instead of the member and also provides that the proxy need not be a member of the Company. Voting in absentia by mail, email or fax is currently not permitted to ensure proper authentication of the identity of the shareholders and their voting intentions.

▶ Guideline 16.1 of the Code: Shareholders should be allowed to vote in absentia

The Board notes that there should be separate resolutions at general meetings on each substantially separate issue and agrees to the Code's recommendation that companies avoid 'bundling' resolutions unless the resolutions are interdependent and linked so as to form one significant proposal.

▶ Guideline 16.2 of the Code: Separate resolutions on each substantially separate issue

All directors, including the Independent Non-Executive Chairman of the Board, and various Board Committees, attend the general meetings to address shareholders' queries and receive feedbacks from shareholders. The external auditors, RSM Chio Lim LLP, are also invited to attend AGMs and will assist in addressing queries from shareholders relating to the conduct of audit and the preparation and content of the auditors' report.

▶ Guideline 16.3 of the Code: All directors should attend general meetings of shareholders

Minutes of general meetings which include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting and responses from the Board and the management were taken. Minutes of general meetings would be available to shareholders upon their written requests.

▶ Guideline 16.4 of the Code: Minutes of general meetings should be prepared and available to shareholders

Voting at the annual general meeting will be by way of poll pursuant to Rule 730A(2) of the Listing Manual of the SGX-ST.

▶ Guideline 16.5 of the Code: All resolutions should be put to vote by poll

Announcement on the poll results (showing the number of votes cast for and against each resolution and the respective percentages) will be released after the meeting via SGXNet.

CORPORATE GOVERNANCE STATEMENT

DEALINGS IN SECURITIES

In line with Rule 1207(19) of the Listing Manual of the SGX-ST on Dealing in Securities, the Company has adopted its own Internal Code of Conduct and issues circulars to its Directors and employees, to remind them that (1) they should not deal in shares of the Company on short-term considerations or if they are in possession of unpublished material price-sensitive information; and (2) they are required to report on their dealings in the shares of the Company. The Directors and employees are also reminded of the prohibition in dealing in shares of the Company two weeks before the release of the quarterly financial results and one month before the release of the year-end financial results and ending on the date of the announcement of the relevant results. The Company has complied with the said Rule 1207(19) of the Listing Manual of the SGX-ST during FY2015.

INTERESTED PERSON TRANSACTIONS

The Group has adopted an internal policy in respect of any transactions with interested persons and requires all such transactions to be at arm's length and is reviewed by the AC. Besides the information disclosed in Table 1 below, there were no other interested person transactions conducted during the year, which exceeds S$100,000 in value.

MATERIAL CONTRACTS

Pursuant to Rule 1207(8) of the Listing Manual of the SGX-ST, except as disclosed in Interested Person Transactions, there was no material contract or loan entered into between the Company and any of its subsidiaries involving interests of any Director or controlling shareholder during FY2015.

Table 1:

Name of Interested Person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than $100,000)			
	Conducted under shareholders' mandate pursuant to Rule 920		Not conducted under shareholders' mandate pursuant to Rule 920	
	FY2015	FY2014	FY2015	FY2014
	S$'000	S$'000	S$'000	S$'000
Sales to Oxley Construction Pte. Ltd.	69	1,181	233	-
Sales to Mr Low See Ching (Non-Executive Director and substantial shareholder)	-	-	74	766
Purchases from Malaysian Mosaic Sdn Bhd	-	-	505	-
Purchases from MML Marketing Pte Ltd	-	-	1,372	-
Capitalization of other payables from World Furnishing Hub Pte. Ltd. ("WFHPL"), a subsidiary of the Company, into share capital of WFHPL:				
– Mr Low See Ching (Non-Executive Director and substantial shareholder)	-	-	211	-
– Mr Ching Chiat Kwong (Substantial shareholder)	-	-	278	-

STATEMENT BY DIRECTORS AND FINANCIAL STATEMENTS

STATEMENT BY DIRECTORS

The directors of the company are pleased to present the financial statements of the company and of the group for the reporting year ended 31 December 2015.

1. OPINION OF THE DIRECTORS

In the opinion of the directors,

(a) the accompanying financial statements and the consolidated financial statements are drawn up so as to give a true and fair view of the financial position and performance of the company and, of the financial position and performance of the group for the reporting year covered by the financial statements or consolidated financial statements; and

(b) at the date of the statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

The board of directors approved and authorised these financial statements for issue.

2. DIRECTORS IN OFFICE AT DATE OF REPORT

The directors of the company in office at the date of this statement are:

Ong Beng Chye
Low Kok Ann
Datuk Edward Lee Ming Foo, JP
Low See Ching
Cheah Yee Leng
Yeow Wai Siaw
Terrance Tan Kong Hwa
Chow Wen Kwan Marcus

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the company holding office at the end of the reporting year were not interested in shares in or debentures of the company or other related body corporate as recorded in the register of directors' shareholdings kept by the company under section 164 of the Companies Act, Chapter 50 (the "Act") except as follows:

	Direct interests		Deemed interests	
Name of directors and companies in which interests are held	**At beginning of the reporting year**	**At end of the reporting year**	**At beginning of the reporting year**	**At end of the reporting year**
The company	**Number of shares of no par value**			
Low Kok Ann	68,000,000	35,098,203	–	–
Low See Ching	30,600,000	113,900	92,500,000	69,553,400

By virtue of section 7 of the Act, the above directors are deemed interested in the shares of all of the company's subsidiaries and associated companies to the extent held by the company.

The directors' interests as at 21 January 2016 were the same as those at the end of the reporting year.

STATEMENT BY DIRECTORS

4. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the reporting year nor at any time during the reporting year did there subsist arrangements to which the company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate except as mentioned below.

5. OPTIONS

During the reporting year, no option to take up unissued shares of the company or other body corporate in the group was granted.

Hafary Performance Share Plan (the "Plan")

The Plan was approved by the members of the company at an annual general meeting held on 25 October 2013. The Plan provides for the grant of ordinary shares of the company, their equivalent cash value or combinations thereof, to selected employees of the company and its subsidiaries and independent directors of the company. Under the Plan, the maximum number of ordinary shares to be awarded to eligible participants shall not exceed 15% of the issued share capital (excluding treasury shares) of the company on the date preceding the grant of the award.

The Plan is administered by the Plan Committee comprising three Independent Directors, Mr. Chow Wen Kwan Marcus (Chairman), Mr. Ong Beng Chye and Mr. Terrance Tan Kong Hwa and an Executive Director, Mr. Low Kok Ann. Ordinary shares are vested when the Plan Committee is satisfied that the prescribed performance condition(s) have been achieved and the vesting period (if any) has expired.

The lapsing of the award is provided for upon the occurrence of certain events, which include:
(a) the misconduct of an eligible participant;
(b) the termination of the employment of an eligible participant;
(c) the bankruptcy of an eligible participant;
(d) the retirement, ill health, injury, disability or death of an eligible participant; and/or
(e) a take-over, amalgamation, winding-up or restructuring of the company.

The Plan shall continue in force at the discretion of the Plan Committee, subject to a maximum period of 10 years commencing on 25 October 2013. The Plan may continue beyond the above stipulated period with the approval of members of the company by ordinary resolution in a general meeting and of any relevant authorities which may then be required.

The company may deliver ordinary shares pursuant to awards granted under the Plan by way of:
(a) issuance of new ordinary shares;
(b) delivery of existing ordinary shares purchased from the market or ordinary shares held in treasury; and/or
(c) cash in lieu of ordinary shares, based on the aggregate market value of such ordinary shares.

STATEMENT BY DIRECTORS

5. OPTIONS (CONT'D)

Hafary Performance Share Plan (the "Plan") (cont'd)

During the reporting year, the number of performance shares granted, vested and cancelled under the Plan are as follows:

	Number of Hafary performance shares				
Granting date	**As at 1 July 2014**	**Granted during the year**	**Vested during the year**	**Cancelled / lapsed during the year**	**As at 31 December 2015**
1 August 2014	–	1,550,000	–	(250,000)	1,300,000

Details of performance shares granted under the Plan to independent directors and other participants are as follows:

	Number of Hafary performance shares		
Performance shares granted during reporting year ended 31 December 2015	**Aggregate performance shares granted since commencement of the Plan to 31 December 2015**	**Aggregate performance shares vested since commencement of the Plan to 31 December 2015**	**Aggregate performance shares outstanding at 31 December 2015**
Other participants	1,550,000	–	1,300,000

During the reporting year, there were no shares issued by virtue of the exercise of an option to take up unissued shares except for those disclosed in the above paragraph.

At the end of the reporting year, there were no unissued shares under option except for those disclosed in the above paragraph.

6. INDEPENDENT AUDITOR

RSM Chio Lim LLP has expressed willingness to accept re-appointment.

STATEMENT BY DIRECTORS

7. REPORT OF AUDIT COMMITTEE

The members of the audit committee at the date of this report are as follows:

Ong Beng Chye	(Chairman of Audit Committee and Independent Director)
Terrance Tan Kong Hwa	(Independent Director)
Chow Wen Kwan Marcus	(Independent Director)

The audit committee performs the functions specified by section 201B (5) of the Act. Among other functions, it performed the following:

- Reviewed with the independent external auditor their audit plan;
- Reviewed with the independent external auditor their evaluation of the company's internal accounting controls relevant to their statutory audit, and their report on the financial statements and the assistance given by management to them;
- Reviewed with the internal auditor the scope and results of the internal audit procedures (including those relating to financial, operational and compliance controls and risk management) and the assistance given by the management to the internal auditor;
- Reviewed the financial statements of the group and the company prior to their submission to the directors of the company for adoption; and
- Reviewed the interested person transactions (as defined in Chapter 9 of the Singapore Exchange Securities Trading Limited's Listing Manual).

Other functions performed by the audit committee are described in the report on corporate governance included in the annual report of the company. It also includes an explanation of how independent auditor objectivity and independence is safeguarded where the independent auditor provides non-audit services.

The audit committee has recommended to the board of directors that the independent auditor, RSM Chio Lim LLP, be nominated for re-appointment as the independent auditor at the next annual general meeting of the company.

8. DIRECTORS' OPINION ON THE ADEQUACY OF INTERNAL CONTROLS

Based on the internal controls established and maintained by the company, work performed by the internal and external auditors, and reviews performed by management, other committees of the board and the board, the audit committee and the board are of the opinion that the company's internal controls, addressing financial, operational and compliance risks, are adequate as at the end of the reporting year 31 December 2015.

On behalf of the directors

....	....
Low Kok Ann	Low See Ching
Director	Director

10 March 2016

INDEPENDENT AUDITOR'S REPORT

To the Members of HAFARY HOLDINGS LIMITED (Registration No: 200918637C)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Hafary Holdings Limited (the "company") and its subsidiaries (the "group"), which comprise the consolidated statement of financial position of the group and the statement of financial position of the company as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the group, and statement of changes in equity of the company for the reporting year then ended, and 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") 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 judgement, 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.

Opinion

In our opinion, the consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company are properly drawn up in accordance with the provisions of the 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 December 2015 and of the financial performance, changes in equity and cash flows of the group and the changes in equity of the company for the reporting 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 by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

10 March 2016

Partner-in-charge of audit: Lam Chien Ju
Effective from reporting year ended 31 December 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year Ended 31 December 2015

		Group	
		01.07.2014 to	01.07.2013 to
	Notes	31.12.2015	30.06.2014
		$'000	$'000
Revenue	5	183,244	92,745
Interest income	6	103	23
Dividend income	7	23	–
Other gains	8	499	1,647
Changes in inventories of finished goods		6,788	6,437
Purchases and related costs		(118,558)	(63,888)
Employee benefits expense	9	(23,136)	(12,923)
Depreciation expense	17, 18	(4,896)	(2,661)
Impairment losses	10	(2,207)	(344)
Other losses	8	(1,522)	(605)
Finance costs	11	(3,753)	(1,784)
Other expenses	12	(16,041)	(8,733)
Share of profit from an equity-accounted associate	20	2,110	635
Share of profit from an equity-accounted joint venture	21	174	198
Profit before income tax from continuing operations		22,828	10,747
Income tax income (expense)	13	817	(2,027)
Profit from continuing operations, net of tax		23,645	8,720
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations, net of tax	28A	710	–
Other comprehensive income for the year, net of tax		710	–
Total comprehensive income		24,355	8,720
Profit attributable to:			
- Owners of the parent, net of tax		22,176	8,048
- Non-controlling interests, net of tax		1,469	672
		23,645	8,720
Total comprehensive income attributable to:			
- Owners of the parent		22,886	8,048
- Non-controlling interests		1,469	672
		24,355	8,720
		Cents	**Cents**
Earnings per share			
Basic	15	5.17	1.88
Diluted	15	5.17	1.88

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2015

		Group		Company	
	Notes	2015	2014	2015	2014
		$'000	$'000	$'000	$'000
ASSETS					
Non-current assets					
Property, plant and equipment	17	97,871	67,239	301	402
Other asset	18	4,950	4,771	–	–
Investments in subsidiaries	19	–	–	9,239	9,239
Investment in associate	20	5,384	3,496	–	–
Investment in joint venture	21	318	278	–	–
Other financial assets	22	2,971	1,247	793	1,247
Total non-current assets		111,494	77,031	10,333	10,888
Current assets					
Inventories	23	46,979	41,356	–	–
Trade and other receivables	24	43,223	26,820	27,055	25,839
Derivative financial assets	33	44	–	–	–
Other assets	25	3,801	4,270	10	13
Cash and cash equivalents	26	8,531	4,857	26	120
Total current assets		102,578	77,303	27,091	25,972
Total assets		214,072	154,334	37,424	36,860
EQUITY AND LIABILITIES					
Equity					
Share capital	27	26,634	26,634	26,634	26,634
Retained earnings (accumulated losses)		23,324	11,015	(189)	1,393
Other reserves	28	829	–	119	–
Equity, attributable to owners of the parent		50,787	37,649	26,564	28,027
Non-controlling interests		4,011	2,635	–	–
Total equity		54,798	40,284	26,564	28,027
Non-current liabilities					
Deferred tax liabilities	13	383	449	–	–
Other financial liabilities	29	65,868	36,941	121	165
Total non-current liabilities		66,251	37,390	121	165
Current liabilities					
Provision	30	525	369	–	–
Income tax payable	13	3,648	5,716	4	5
Trade and other payables	31	30,182	14,944	10,704	8,624
Other financial liabilities	29	57,773	54,701	31	39
Other liabilities	32	895	826	–	–
Derivative financial liabilities	33	–	104	–	–
Total current liabilities		93,023	76,660	10,739	8,668
Total liabilities		159,274	114,050	10,860	8,833
Total equity and liabilities		214,072	154,334	37,424	36,860

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

STATEMENTS OF CHANGES IN EQUITY

Year Ended 31 December 2015

Group:	Total equity $'000	Attributable to parent subtotal $'000	Share capital $'000	Retained earnings $'000	Other reserves $'000	Non-controlling interests $'000
Current year:						
Opening balance at 1 July 2014	40,284	37,649	26,634	11,015	–	2,635
Movements in equity:						
Total comprehensive income for the year	24,355	22,886	–	22,176	710	1,469
Capital contribution by non-controlling interest	488	–	–	–	–	488
Equity-settled share-based expenses (Note 28B)	119	119	–	–	119	–
Dividends paid (Note 16)	(9,867)	(9,867)	–	(9,867)	–	–
Dividends paid to non-controlling interests	(581)	–	–	–	–	(581)
Closing balance at 31 December 2015	54,798	50,787	26,634	23,324	829	4,011
Previous year:						
Opening balance at 1 July 2013	46,751	44,676	26,634	18,042	–	2,075
Movements in equity:						
Total comprehensive income for the year	8,720	8,048	–	8,048	–	672
Acquisition of a non-controlling interest without a change in control (Note 19)	–	(60)	–	(60)	–	60
Dividends paid (Note 16)	(15,015)	(15,015)	–	(15,015)	–	–
Dividends paid to non-controlling interests	(172)	–	–	–	–	(172)
Closing balance at 30 June 2014	40,284	37,649	26,634	11,015	–	2,635

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

STATEMENTS OF CHANGES IN EQUITY

Year Ended 31 December 2015

Company:	Total equity $'000	Share capital $'000	(Accumulated losses) / Retained earnings $'000	Other reserves $'000
Current year:				
Opening balance at 1 July 2014	28,027	26,634	1,393	–
Movements in equity:				
Total comprehensive income for the year	8,285	–	8,285	–
Equity-settled share-based expenses (Note 28B)	119	–	–	119
Dividends paid (Note 16)	(9,867)	–	(9,867)	–
Closing balance at 31 December 2015	26,564	26,634	(189)	119
Previous year:				
Opening balance at 1 July 2013	37,773	26,634	11,139	–
Movements in equity:				
Total comprehensive income for the year	5,269	–	5,269	–
Dividends paid (Note 16)	(15,015)	–	(15,015)	–
Closing balance at 30 June 2014	28,027	26,634	1,393	–

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2015

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Cash flows from operating activities		
Profit before tax	22,828	10,747
Adjustments for:		
Interest expense	3,753	1,784
Interest income	(103)	(23)
Dividend income	(23)	–
Share of profit of associate	(2,110)	(635)
Share of profit of joint venture	(174)	(198)
Depreciation of property, plant and equipment	4,710	2,628
Depreciation of other asset	186	33
Equity-settled share-based expenses	119	–
Gain on disposal of development property	–	(85)
(Gain) loss on disposal of property, plant and equipment	(19)	304
Gain on disposal of subsidiary (Note 14)	–	(1,000)
Fair value loss (gain) on other financial assets	454	(189)
Fair value (gain) loss on derivative financial instruments	(188)	301
Net effect of exchange rate changes in consolidating subsidiaries	(307)	(7)
Operating cash flows before changes in working capital	29,126	13,660
Inventories	(5,623)	(6,302)
Trade and other receivables	(16,247)	(1,944)
Other assets	469	1,202
Cash restricted in use	82	(82)
Provision	156	41
Trade and other payables	5,604	3,555
Other liabilities	69	234
Net cash flows from operations	13,636	10,364
Income taxes paid	(1,317)	(1,423)
Net cash flows from operating activities	12,319	8,941
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 26B)	(26,780)	(17,949)
Purchase of other asset	–	(4,804)
Proceeds from disposal of property, plant and equipment	503	233
Progress payments received from sale of development property	–	6,528
Investment in other financial assets	(2,162)	(1,058)
Proceeds from disposal of subsidiary (Note 14)	–	1,000
Loan to associate	–	(1,269)
Dividend income from associate	222	–
Dividend income from joint venture	138	80
Dividend received	23	–
Interest received	88	1
Net cash flows used in investing activities	(27,968)	(17,238)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2015

	Group	
	01.07.2014 to 31.12.2015 $'000	**01.07.2013 to 30.06.2014 $'000**
Cash flows from financing activities		
Dividends paid to equity owners	(9,867)	(21,450)
Dividends paid to non-controlling interests	(581)	(172)
Net movements in amounts due to related parties	1,943	–
Increase (decrease) in trust receipts and bills payable	9,409	(6,573)
Repayment of finance lease liabilities	(572)	(284)
Increase from new borrowings	28,789	51,817
Decrease in other financial liabilities	(6,264)	(18,067)
Interest expense paid	(3,517)	(1,782)
Net cash flows from financing activities	19,340	3,489
Net increase (decrease) in cash and cash equivalents	3,691	(4,808)
Net effect of exchange rate changes on cash and cash equivalents	65	–
Cash and cash equivalents, beginning balance	4,775	9,583
Cash and cash equivalents, ending balance (Note 26A)	8,531	4,775

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

1. GENERAL

The company is incorporated in Singapore with limited liability. The financial statements are presented in Singapore dollars and they cover the company (referred to as "parent") and the subsidiaries.

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors.

The company is an investment holding company. It is listed on the Singapore Exchange Securities Trading Limited.

The principal activities of the subsidiaries are described in Note 19 below.

The registered office is: 105 Eunos Avenue 3, Hafary Centre, Singapore 409836. The principal place of business is in Singapore.

Accounting convention

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards ("FRS") and the related Interpretations to FRS ("INT FRS") as issued by the Singapore Accounting Standards Council and the Companies Act, Chapter 50. The financial statements are prepared on a going concern basis under the historical cost convention except where an FRS requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. The accounting policies in FRSs need not be applied when the effect of applying them is immaterial. The disclosures required by FRSs need not be made if the information is immaterial. Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in the income statement, as required or permitted by FRS. Reclassification adjustments are amounts reclassified to profit or loss in the income statement in the current period that were recognised in other comprehensive income in the current or previous periods.

Basis of preparation of the financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies. The areas requiring management's most difficult, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed at the end of this footnote, where applicable.

Basis of presentation

The consolidated financial statements include the financial statements made up to the end of the reporting year of the company and all of its subsidiaries. The consolidated financial statements are the financial statements of the group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity and are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions, including income, expenses and cash flows are eliminated on consolidation. Subsidiaries are consolidated from the date the reporting entity obtains control of the investee and cease when the reporting entity loses control of the investee. Control exists when the group has the power to govern the financial and operating policies so as to gain benefits from its activities.

Changes in the group's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity as transactions with owners in their capacity as owners. The carrying amounts of the group's and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. When the group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost and is subsequently accounted as available-for-sale financial assets in accordance with FRS 39.

1. GENERAL (CONT'D)

Basis of presentation (cont'd)

The company's separate financial statements have been prepared on the same basis, and as permitted by the Companies Act, Chapter 50, the company's separate statement of profit or loss and other comprehensive income is not presented.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

2A. Significant accounting policies

Revenue recognition

The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the reporting year arising from the course of the activities of the entity and it is shown net of any related sales taxes, returns and rebates. Revenue from the sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from rendering of services that are of short duration is recognised when the services are completed. Revenue from sale of goods which require installation is recognised by reference to the stage of completion of the transaction at the end of the reporting year determined by the proportion of the costs incurred to date to the estimated total costs of the transaction and the amount of revenue, stage of completion, and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Rental revenue is recognised on a time-proportion basis that takes into account the effective yield on the asset on a straight-line basis over the lease term. Dividend from equity instruments is recognised as income when the entity's right to receive dividend is established. Interest income is recognised using the effective interest method.

Government grants

A government grant is recognised at fair value when there is reasonable assurance that the conditions attaching to it will be complied with and that the grant will be received. Grants in recognition of specific expenses are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. A grant related to depreciable assets is allocated to income over the period in which such assets are used in the project subsidised by the grant. A government grant related to assets, including non-monetary grants at fair value, is presented in the statement of financial position by setting up the grant as deferred income.

Employee benefits

Contributions to a defined contribution retirement benefit plan are recorded as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it is obligated to contribute for the Singapore employees to an independently administered fund (such as the Central Provident Fund in Singapore, a government managed defined contribution retirement benefit plan). Certain overseas subsidiaries have defined contribution retirement benefit plans in which employees are entitled to join upon fulfilling certain conditions. The assets of the fund may or may not be held separately from those of the entity in an independently administered fund. The entity contributes an amount equal to a fixed percentage of the salary of each participating employee. For employee leave entitlement, the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur. A liability for bonuses is recognised where the entity is contractually obliged or where there is constructive obligation based on past practice.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (cont'd)

Share-based compensation

Benefits to employees are also provided in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). The fair value of the employee services rendered is measured by reference to the fair value of the shares awarded or rights granted, excluding the impact of any non-market vesting conditions. These are fair valued based on the market price of the entity's shares (or an estimated market price, if the entity's shares are not publicly traded). This fair value amount is charged to profit or loss over the vesting period of the share-based payment scheme, with the corresponding increase in equity. The value of the charge is adjusted in profit or loss over the remainder of the vesting period to reflect expected and actual quantities vesting, with the corresponding adjustment made in equity. Cancellations of grants of equity instruments during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) are accounted for as an acceleration of vesting, therefore any amount unrecognised that would otherwise have been charged is recognised immediately in profit or loss.

Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Interest expense is calculated using the effective interest rate method. Borrowing costs are recognised as an expense in the period in which they are incurred except that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of that asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Foreign currency transactions

The functional currency is the Singapore dollar as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At each end of the reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value measurement dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss except when recognised in other comprehensive income and if applicable deferred in equity such as for qualifying cash flow hedges. The presentation is in the functional currency.

Translation of financial statements of other entities

Each entity within the group determines the appropriate functional currency as it reflects the primary economic environment in which the relevant reporting entity operates. In translating the financial statements of such an entity for incorporation in the consolidated financial statements in the presentation currency, the assets and liabilities denominated in other currencies are translated at end of the reporting year rates of exchange and the income and expenses items for each statement presenting profit or loss and other comprehensive income are translated at average rates of exchange for the reporting year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of that relevant reporting entity.

Subsidiaries

A subsidiary is an entity including unincorporated and special purpose entity that is controlled by the reporting entity and the reporting entity 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. The existence and effect of substantive potential voting rights that the reporting entity has the practical ability to exercise (that is, substantive rights) are considered when assessing whether the reporting group controls another entity.

In the reporting entity's separate financial statements, an investment in a subsidiary is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for a subsidiary 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. The carrying value and the net book value of the investment in a subsidiary are not necessarily indicative of the amount that would be realised in a current market exchange.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (cont'd)

Associates

An associate is an entity including an unincorporated entity in which the reporting entity has a significant influence and that is neither a subsidiary nor a joint arrangement of the reporting entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. An investment in an associate includes goodwill on acquisition, which is accounted for in accordance with FRS 103 Business Combinations. However the entire carrying amount of the investment is tested under FRS 36 for impairment, by comparing its recoverable amount (higher of value in use and fair value) with its carrying amount, whenever application of the requirements in FRS 39 indicates that the investment may be impaired.

In the consolidated financial statements, the accounting for investments in an associate is on the equity method. Under the equity method the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The carrying value and the net book value of an investment in the associate are not necessarily indicative of the amounts that would be realised in a current market exchange. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. Losses of an associate in excess of the reporting entity's interest in the relevant associate are not recognised except to the extent that the reporting entity has an obligation. Profits and losses resulting from transactions between the reporting entity and an associate are recognised in the financial statements only to the extent of unrelated reporting entity's interests in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the reporting entity. The reporting entity discontinues the use of the equity method from the date that when its investment ceases to be an associate and accounts for the investment in accordance with FRS 39 from that date. Any gain or loss is recognised in profit or loss. Any investment retained in the former associate is measured at fair value at the date that it ceases to be an associate.

In the reporting entity's separate financial statements, an investment in an associate is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for an associate 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. The carrying value and the net book value of an investment in the associate are not necessarily indicative of the amounts that would be realised in a current market exchange.

Joint arrangements – joint venture

A joint arrangement (that is, either a joint operation or a joint venture, depending on the rights and obligations of the jointly controlling parties to the arrangement), is one in which the reporting entity is party to an arrangement of which two or more parties have joint control, which is the contractually agreed sharing of control of the arrangement; it exists only when decisions about the relevant activities (that is, activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. In a joint venture, the parties with joint control have rights to the net assets of the arrangement. The reporting interests in joint ventures are recognised using the equity method in accordance with FRS 28 Investments in Associates and Joint Ventures (as described above for associates).

Business combinations

Business combinations are accounted for by applying the acquisition method. There were no acquisition during the reporting year.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (cont'd)

Non-controlling interests

The non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to the reporting entity as the parent. The non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. For each business combination, any non-controlling interest in the acquiree (subsidiary) is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Where the non-controlling interest is measured at fair value, the valuation techniques and key model inputs used are disclosed in the relevant Note. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Segment reporting

The reporting entity discloses financial and descriptive information about its consolidated reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is reported on the same basis as is used internally for evaluating operating segments performance and deciding how to allocate resources to operating segments.

Income tax

The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the reporting year in respect of current tax and deferred tax. Current and deferred income taxes are recognised as income or as an expense in profit or loss unless the tax relates to items that are recognised in the same or a different period outside profit or loss. For such items recognised outside profit or loss, the current tax and deferred tax are recognised (a) in other comprehensive income if the tax is related to an item recognised in other comprehensive income and (b) directly in equity if the tax is related to an item recognised directly in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at each end of the reporting year and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability or asset is recognised for all taxable temporary differences associated with investments in subsidiaries, associates and joint arrangements except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

Property, plant and equipment

Depreciation is provided on a straight-line method to allocate the gross carrying amounts of the assets less their residual values over their estimated useful lives of each part of an item of these assets. The annual rates of depreciation are as follows:

Leasehold properties	–	Over the terms of lease, that are from 2% to 8%
Plant and equipment	–	10% to 33%
Motor vehicles	–	20% to 25%

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. The gain or loss arising from the derecognition of an item of property, plant and equipment is measured as the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the reporting year and, if expectations differ significantly from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted.

Cost also includes acquisition cost, borrowing cost capitalised and any cost directly attributable to bringing the asset or component to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are recognised as an asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred.

Land use right

Land use right is initially measured at cost. Following initial recognition, land use right is measured at cost less accumulated amortisation and accumulated impairment losses. The land use right is amortised over the remaining lease terms of 37 years, which is 3% per annum.

Leases

Leases are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases. At the commencement of the lease term, a finance lease is recognised as an asset and as a liability in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each measured at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine, the lessee's incremental borrowing rate is used. Any initial direct costs of the lessee are added to the amount recognised as an asset. The excess of the lease payments over the recorded lease liability are treated as finance charges which are allocated to each reporting year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the reporting years in which they are incurred. The assets are depreciated as owned depreciable assets. Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. For operating leases, lease payments are recognised as an expense in profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (cont'd)

Impairment of non-financial assets

Irrespective of whether there is any indication of impairment, an annual impairment test is performed at the same time every year on an intangible asset with an indefinite life or an intangible asset not yet available for use. The carrying amount of other non-financial assets is reviewed at each end of the reporting year for indications of impairment and where an asset is impaired, it is written down through profit or loss to its estimated recoverable amount. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. When the fair value less costs of disposal method is used, any available recent market transactions are taken into consideration. When the value in use method is adopted, in assessing the 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each end of the reporting year, non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. 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 measured, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories

Inventories are measured at the lower of cost (specific identification method) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. A write down on cost is made where the cost is not recoverable or if the selling prices have declined. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Financial assets

Initial recognition, measurement and derecognition:

A financial asset is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. The initial recognition of financial assets is at fair value normally represented by the transaction price. The transaction price for financial asset not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs incurred on the acquisition or issue of financial assets classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date. When the settlement date accounting is applied, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in net profit or loss for assets classified as trading.

Irrespective of the legal form of the transactions performed, financial assets are derecognised when they pass the "substance over form" based on the derecognition test prescribed by FRS 39 relating to the transfer of risks and rewards of ownership and the transfer of control. Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (cont'd)

Financial assets (cont'd)

Subsequent measurement:

Subsequent measurement based on the classification of the financial assets in one of the following categories under FRS 39 is as follows:

1. Financial assets at fair value through profit or loss: Assets are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading assets) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or have been classified in this category because the conditions are met to use the "fair value option" and it is used. All changes in fair value relating to assets at fair value through profit or loss are recognised directly in profit or loss.

2. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that are for sale immediately or in the near term are not classified in this category. These assets are carried at amortised costs using the effective interest method (except that short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant) minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Impairment charges are provided only when there is objective evidence that an impairment loss has been incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The methodology ensures that an impairment loss is not recognised on the initial recognition of an asset. Losses expected as a result of future events, no matter how likely, are not recognised. For impairment, the carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Typically the trade and other receivables are classified in this category.

3. Held-to-maturity financial assets*:* As at end of the reporting year, there were no financial assets classified in this category.

4. Available-for-sale financial assets: These are non-derivative financial assets that are designated as available-for-sale on initial recognition or are not classified in one of the previous categories. These assets are carried at fair value. Changes in fair value of available-for-sale financial assets (other than those relating to foreign exchange translation differences on monetary investments) are recognised in other comprehensive income and accumulated in a separate component of equity under the heading revaluation reserves. Such reserves are reclassified to profit or loss when realised through disposal. When there is objective evidence that the asset is impaired, the cumulative loss is reclassified from equity to profit or loss as a reclassification adjustment. A significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment. If, in a subsequent period, the fair value of an equity instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss, it is reversed against revaluation reserves and is not subsequently reversed through profit or loss. However for debt instruments classified as available-for-sale impairment losses recognised in profit or loss are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. For non-equity instruments classified as available-for-sale the reversal of impairment is recognised in profit or loss. The weighted average method is used when determining the cost basis of publicly listed equities being disposed of. Usually non-current investments in equity shares and debt securities are classified in this category but it does not include subsidiaries, joint ventures, or associates. Unquoted investments are stated at cost less allowance for impairment in value where there are no market prices, and management is unable to establish fair value by using valuation techniques except that where management can establish fair value by using valuation techniques the relevant unquoted investments are stated at fair value. For unquoted equity instruments impairment losses are not reversed.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (cont'd)

Cash and cash equivalents

Cash and cash equivalents include bank and cash balances, on demand deposits and any highly liquid debt instruments purchased with an original maturity of three months or less. For the consolidated statement of cash flows, the item includes cash and cash equivalents less cash subject to restriction and bank overdrafts payable on demand that form an integral part of cash management.

Hedging

The entity is exposed to currency and interest rate risks. The policy is to reduce currency exposures through derivatives and other hedging instruments. From time to time, there may be foreign exchange arrangements or similar instruments entered into as hedges against changes in cash flows or the fair values of the financial assets and liabilities. The gain or loss from remeasuring these hedging or other arrangement instruments at fair value are recognised in profit or loss. The derivatives and other hedging instruments used are described below in the notes to the financial statements.

Derivatives

All derivatives are initially recognised and subsequently carried at fair value. Certain derivatives are entered into in order to hedge some transactions and all the strict hedging criteria prescribed by FRS 39 are not met. In those cases, even though the transaction has its economic and business rationale, hedge accounting cannot be applied. As a result, changes in the fair value of those derivatives are recognised directly in profit or loss and the hedged item follows normal accounting policies.

Financial liabilities

Initial recognition, measurement and derecognition:

A financial liability is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument and it is derecognised when the obligation specified in the contract is discharged or cancelled or expires. The initial recognition of financial liability is at fair value normally represented by the transaction price. The transaction price for financial liability not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Transaction costs incurred on the acquisition or issue of financial liability classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date.

Subsequent measurement:

Subsequent measurement based on the classification of the financial liabilities in one of the following categories under FRS 39 is as follows:

1. Liabilities at fair value through profit or loss: Liabilities are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading liabilities) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or have been classified in this category because the conditions are met to use the "fair value option" and it is used. Financial guarantee contracts if significant are initially recognised at fair value and are subsequently measured at the greater of (a) the amount determined in accordance with FRS 37 and (b) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with FRS 18. All changes in fair value relating to liabilities at fair value through profit or loss are charged to profit or loss as incurred.

2. Other financial liabilities: All liabilities, which have not been classified as in the previous category fall into this residual category. These liabilities are carried at amortised cost using the effective interest method. Trade and other payables and borrowings are usually classified in this category. Items classified within current trade and other payables are not usually re-measured, as the obligation is usually known with a high degree of certainty and settlement is short-term.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (cont'd)

Provisions

A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is made using best estimates of the amount required in settlement and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Changes in estimates are reflected in profit or loss in the reporting year they occur.

Fair value measurement

Fair value is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, an exit price). It is a market-based measurement, not an entity-specific measurement. When measuring fair value, management uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value. In making the fair value measurement, management determines the following: (a) the particular asset or liability being measured (these are identified and disclosed in the relevant notes below); (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation techniques to use when measuring fair value. The valuation techniques used maximise the use of relevant observable inputs and minimise unobservable inputs. These inputs are consistent with the inputs a market participant may use when pricing the asset or liability.

The fair value measurements and related disclosures categorise the inputs to valuation techniques used to measure fair value by using a fair value hierarchy of three levels. These are recurring fair value measurements unless state otherwise in the relevant notes to the financial statements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The level is measured on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting year. If a financial instrument measured at fair value has a bid price and an ask price, the price within the bid-ask spread or mid-market pricing that is most representative of fair value in the circumstances is used to measure fair value regardless of where the input is categorised within the fair value hierarchy. If there is no market, or the markets available are not active, the fair value is established by using an acceptable valuation technique.

The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value. The fair values of non-current financial instruments may not be disclosed separately unless there are significant differences at the end of the reporting year and in the event the fair values are disclosed in the relevant notes to the financial statements.

2B. Other explanatory information

Classification of equity and liabilities

A financial instrument is classified as a liability or as equity in accordance with the substance of the contractual arrangement on initial recognition. Equity instruments are contracts that give a residual interest in the net assets of the reporting entity. Where the financial instrument does not give rise to a contractual obligation on the part of the issuer to make payment in cash or kind under conditions that are potentially unfavourable, it is classified as an equity instrument. Ordinary shares are classified as equity. Equity instruments are recognised at the amount of proceeds received net of incremental costs directly attributable to the transaction. Dividends on equity are recognised as liabilities when they are declared. Interim dividends are recognised when declared by the directors.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2C. Critical judgements, assumptions and estimation uncertainties

The critical judgements made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities currently or within the next reporting year are discussed below. These estimates and assumptions are periodically monitored to ensure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

Net realisable value of inventories:
A review is made on inventory for excess inventory and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. The review requires management to consider the future demand for the products. In any case, the realisable value represents the best estimate of the recoverable amount and is based on the acceptable evidence available at the end of the reporting year and inherently involves estimates regarding the future expected realisable value. The usual considerations for determining the amount of allowance or write-down include ageing analysis, technical assessment and subsequent events. In general, such an evaluation process requires significant judgment and materially affects the carrying amount of inventories at the end of the reporting year. Possible changes in these estimates could result in revisions to the stated value of the inventories. The carrying amount is disclosed in the note on inventories.

Allowance for doubtful trade accounts:
An allowance is made for doubtful trade accounts for estimated losses resulting from the subsequent inability of the customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. To the extent that it is feasible impairment and uncollectibility is determined individually for each item. In cases where that process is not feasible, a collective evaluation of impairment is performed. At the end of the reporting year, the trade receivables carrying amount approximates the fair value and the carrying amounts might change materially within the next reporting year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting year. The carrying amount is disclosed in the note on trade and other receivables.

Measurement of impairment of subsidiary:
Where an investee is in net equity deficit and or has suffered losses a test is made whether the investment in the investee has suffered any impairment. This measurement requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. The carrying amount of the specific asset at the end of the reporting year affected by the assumption is $80,000 (2014: $80,000).

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

FRS 24 on related party disclosures requires the reporting entity to disclose: (a) transactions with its related parties; and (b) relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. A party is related to a party if the party controls, or is controlled by, or can significantly influence or is significantly influenced by the other party.

3A. Members of a group

Name	Relationship	Country of incorporation
Gek Poh (Holdings) Sdn. Bhd.	Ultimate parent company	Malaysia
Hap Seng Consolidated Berhad	Intermediate parent company	Malaysia
Hap Seng Investment Holdings Pte Ltd	Parent company	Singapore

Related companies in these financial statements include the members of the above group of companies. Associates also include those that are associates of members of the above group.

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3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

3B. Related party transactions

There are transactions and arrangements between the reporting entity and related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The related party balances are unsecured without fixed repayment terms and interest unless stated otherwise. For any balances and financial guarantees, no interest or charge is imposed unless stated otherwise.

Intragroup transactions and balances that have been eliminated in these consolidated financial statements are not disclosed as related party transactions and balances below.

In addition to transactions and balances disclosed elsewhere in the notes to the financial statements, this item includes the following:

Significant related party transactions:

	Group	
	01.07.2014 to 31.12.2015 $'000	**01.07.2013 to 30.06.2014 $'000**
Associate:		
Sales of goods	(101)	(263)
Interest income	(80)	(22)
Joint venture:		
Sale of goods	(416)	(14)
Rental income	(746)	(214)
Other income	(106)	(112)
Receiving of services	2,115	181
Rental expense	32	–
Director:		
Sale of goods	(74)	(771)
Rental expense	15	11
Other related parties		
Sale of goods	(314)	(1,199)
Rental income	(35)	–
Purchase of goods	1,877	–

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

3C. Key management compensation

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Salaries and other short-term employee benefits	3,349	1,684

The above amounts are included under employee benefits expense. Included in the above amounts are the following items:

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Remuneration of directors of the company	1,260	655
Fees to directors of the company	286	154

Further information about the remuneration of individual directors is provided in the report on corporate governance.

Key management personnel include the directors and those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

3D. Other receivables from and other payables to related parties

The trade transactions and the related receivables and payables balances arising from sales and purchases of goods and services are disclosed elsewhere in the notes to the financial statements.

The movements in other receivables from and other payables to related parties are as follows:

	Joint venture	
	2015 $'000	2014 $'000
Group		
Other receivable (other payable):		
Balance at beginning of the year – net debit	250	180
Amounts paid out and settlement of liabilities on behalf of the another party	1,470	502
Amounts paid in and settlement of liabilities on behalf of the group	(947)	(432)
Balance at end of the year – net debit	773	250
Presented in the statement of financial position as follows:		
Other receivable (Note 24)	784	302
Other payable (Note 31)	(11)	(52)
	773	250

NOTES TO THE FINANCIAL STATEMENTS

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3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

3D. Other receivables from and other payables to related parties (cont'd)

	Associate	
	2015 $'000	2014 $'000
Group		
Other receivable:		
Balance at beginning of the year	1,291	–
Loan to associate	–	1,269
Interest income (Note 6)	80	22
Foreign exchange adjustments gains	145	–
Amounts paid in and settlement of liabilities on behalf of the group	(64)	–
Balance at end of the year (Note 24)	1,452	1,291

	Director	
	2015 $'000	2014 $'000
Group		
Other payable:		
Balance at beginning of the year	549	2,867
Amounts paid in	732	549
Amounts paid out	–	(2,867)
Capitalisation of other payable into share capital of a subsidiary	(211)	–
Balance at end of the year (Note 31)	1,070	549

	Shareholder	
	2015 $'000	2014 $'000
Group		
Other payable:		
Balance at beginning of the year	722	3,568
Amounts paid in	1,700	722
Amounts paid out	–	(3,568)
Capitalisation of other payable into share capital of a subsidiary	(278)	–
Balance at end of the year (Note 31)	2,144	722

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3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

3D. Other receivables from and other payables to related parties (cont'd)

	Subsidiaries	
	2015 **$'000**	**2014** **$'000**
Company		
Other receivables (other payables):		
Balance at beginning of the year – net debit	14,017	30,692
Amounts paid out and settlement of liabilities on behalf of the another party	2,027	2,085
Amounts paid in and settlement of liabilities on behalf of the company	(10,605)	(23,700)
Dividend income	8,590	4,940
Balance at end of the year – net debit	14,029	14,017
Presented in the statement of financial position as follows:		
Other receivables (Note 24)	23,419	22,018
Other payables (Note 31)	(9,390)	(8,001)
	14,029	14,017

4. FINANCIAL INFORMATION BY OPERATING SEGMENTS

4A. Information about reportable segment profit or loss, assets and liabilities

Disclosure of information about operating segments, products and services, the geographical areas and the major customers are made as required by FRS 108 Operating Segments. This disclosure standard has no impact on the reported results or financial position of the reporting entity.

For management purposes, the reporting entity is organised into three major strategic operating segments: General, Project and Others. Such a structural organisation is determined by the nature of risks and returns associated with each business segment and defines the management structure as well as the internal reporting system. It represents the basis on which the management reports the primary segment information. They are managed separately because each business requires different strategies.

The products of the operating segments comprise ceramic tiles, stone and wood furnishing for residential and commercial properties.

The segments and the types of products and services are as follows:

General segment includes retail "walk-in" customers who purchase their requirements from the showrooms or customers (such as architecture, interior design and renovation firms) who make ad-hoc purchases for home renovation or small property development. The quantities purchased are typically small.

Project segment includes customers who are usually involved in major property development projects, whether residential, commercial, public or industrial. Project customers include architecture firms, property developers and construction companies.

Others segment relates to investing activities including property development.

Inter-segment sales are measured on the basis that the entity actually used to price the transfers. Internal transfer pricing policies of the group are as far as practicable based on market prices. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

4. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONT'D)

4A. Information about reportable segment profit or loss, assets and liabilities (cont'd)

The management reporting system evaluates performances based on a number of factors. However, the primary profitability measurement to evaluate segment's operating results comprises two major financial indicators: (1) earnings from operations before depreciation, interests and income taxes ("Recurring EBITD"); and (2) operating results before income taxes and other unallocated items ("ORBIT").

The tables below illustrated the information about the reportable segment profit or loss, assets and liabilities.

4B. Profit or loss from continuing operations and reconciliations

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
01.07.2014 to 31.12.2015:					
Revenue by segment:					
Total revenue by segment	124,193	135,112	6,975	295	266,575
Inter-segment sales	(35,346)	(44,288)	(3,697)	–	(83,331)
Total revenue	88,847	90,824	3,278	295	183,244
Recurring EBITD	12,172	14,356	2,370	295	29,193
Non-recurring EBITD	–	–	–	–	–
Finance costs	(3,321)	(432)	–	–	(3,753)
Depreciation expense	(3,363)	(1,533)	–	–	(4,896)
Share of profit from an equity-accounted associate	–	–	2,110	–	2,110
Share of profit from an equity-accounted joint venture	–	–	174	–	174
ORBIT	5,488	12,391	4,654	295	22,828
Income tax expense					817
Profit from continuing operations					23,645

NOTES TO THE FINANCIAL STATEMENTS

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4. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONT'D)

4B. Profit or loss from continuing operations and reconciliations (cont'd)

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
01.07.2013 to 30.06.2014:					
Revenue by segment:					
Total revenue by segment	67,699	59,804	3,315	169	130,987
Inter-segment sales	(17,311)	(18,521)	(2,410)	–	(38,242)
Total revenue	50,388	41,283	905	169	92,745
Recurring EBITD	6,782	5,824	1,584	169	14,359
Non-recurring EBITD	–	–	(1,085)	–	(1,085)
Gain on disposal of development property	–	–	85	–	85
Gain on disposal of subsidiary (Note 14)	–	–	1,000	–	1,000
Finance costs	(1,482)	(302)	–	–	(1,784)
Depreciation expense	(1,790)	(871)	–	–	(2,661)
Share of profit from an equity-accounted associate	–	–	635	–	635
Share of profit from an equity-accounted joint venture	–	–	198	–	198
ORBIT	3,510	4,651	2,417	169	10,747
Income tax expense					(2,027)
Profit from continuing operations					8,720

4C. Assets, liabilities and reconciliations

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
2015:					
Segment assets	144,222	64,148	5,702	–	214,072
Segment liabilities	118,530	36,713	–	–	155,243
Deferred tax liabilities					383
Income tax payable					3,648
Total liabilities					159,274

4. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONT'D)

4C. Assets, liabilities and reconciliations (cont'd)

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
2014:					
Segment assets	109,981	40,577	3,776	–	154,334
Segment liabilities	80,617	27,268	–	–	107,885
Deferred tax liabilities					449
Income tax payable					5,716
Total liabilities					114,050

4D. Other material items and reconciliations

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
Impairment of assets:					
01.07.2014 to 31.12.2015	1,896	311	–	–	2,207
01.07.2013 to 30.06.2014	320	24	–	–	344
Expenditures for non-current assets:					
01.07.2014 to 31.12.2015	22,272	13,128	–	–	35,400
01.07.2013 to 30.06.2014	19,604	3,989	–	–	23,593

4E. Geographical information

	Revenue		Non-current assets	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000	2015 $'000	2014 $'000
Singapore	175,988	91,296	92,748	62,262
People's Republic of China	563	1,063	10,391	10,026
Socialist Republic of Vietnam	84	238	5,384	3,496
Republic of the Union of Myanmar	4,259	–	–	–
Republic of Indonesia	1,072	–	–	–
Others	1,278	148	–	–
Total	183,244	92,745	108,523	75,784

NOTES TO THE FINANCIAL STATEMENTS

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4. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONT'D)

4E. Geographical information (cont'd)

Revenues are attributed to countries on the basis of the customer's location, irrespective of the origin of the goods and services. The non-current assets are analysed by the geographical area in which the assets are located. The non-current assets exclude any financial instruments and deferred tax assets.

4F. Information about major customers

There was no customer with sale transactions over 10% of the group's revenue during the current and previous reporting year.

5. REVENUE

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Sale of goods	171,301	87,428
Amount recognised from installation contracts	8,369	4,243
Rental income	3,278	924
Other income	296	150
Total revenue	183,244	92,745

6. INTEREST INCOME

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Interest income from associate (Note 3)	80	22
Interest income	23	1
Total interest income	103	23

7. DIVIDEND INCOME

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Dividend income from quoted corporation	23	–

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8. OTHER GAINS AND (OTHER LOSSES)

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Compensation income	22	–
Fair value gain (loss) on derivative financial instruments (Note 33)	188	(301)
Fair value (loss) gain on other financial asset (Note 22A)	(454)	189
Foreign exchange adjustment (loss) gain	(1,068)	161
Gain on disposal of development property	–	85
Gain (loss) on disposal of property, plant and equipment	19	(304)
Gain on disposal of subsidiary (Note 14)	–	1,000
Government grant income	220	106
Insurance compensation received	18	12
Sponsorship income	32	94
Net	(1,023)	1,042
Presented in profit or loss as:		
Other gains	499	1,647
Other losses	(1,522)	(605)
Net	(1,023)	1,042

9. EMPLOYEE BENEFITS EXPENSE

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Salaries, bonuses and other short-term benefits	19,964	11,303
Contributions to defined contribution plan	3,053	1,620
Equity-settled share-based expenses (Note 28B)	119	–
Total employee benefits expense	23,136	12,923

10. IMPAIRMENT LOSSES

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Allowance for impairment of inventories (Note 23)	1,171	135
Allowance for impairment of trade receivables (Note 24)	922	240
Allowance for impairment of trade receivables, reversal (Note 24)	(5)	(44)
Bad debts recovered – trade receivables	(28)	(2)
Bad debts written-off – trade receivables	146	–
Bad debts written off – other receivables	1	1
Other assets written off	–	14
Total impairment losses	2,207	344

11. FINANCE COSTS

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Interest expense on:		
- bank loans	2,775	1,083
- bill payables	1,312	786
- finance lease liabilities	29	17
Less: amounts included in the cost of qualifying assets		
- property, plant and equipment	(363)	(102)
Total finance costs	3,753	1,784

12. OTHER EXPENSES

The major components and other selected components include the following:

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Advertising	162	213
Bank charges	448	234
Commission	1,161	849
Entertainment and refreshment	565	362
Hire of equipment and motor vehicles	702	255
Insurance expense	264	136
Legal and professional fees	811	306
Property tax	1,456	329
Printing and stationery	215	152
Rental of premises	4,244	2,191
Repair and maintenance	574	337
Staff welfare	488	258
Transportation expense	106	60
Travelling expense	247	231
Upkeep of forklifts	423	208
Upkeep of motor vehicles	923	763
Utilities	673	408
Audit fees to the independent auditors of the company	167	116
Audit fees to the other independent auditors	19	8
Other fees to the independent auditors of the company	36	12
Other fees to the other independent auditors	21	–

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13. INCOME TAX

13A. Components of tax (income) expense recognised in profit or loss include:

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Current tax expense (income):		
Current tax expense	3,344	1,797
(Over) under adjustments in respect of prior years	(4,095)	20
Subtotal	(751)	1,817
Deferred tax expense (income):		
Deferred tax expense	156	188
Under adjustments in respect of prior years	(222)	22
Subtotal	(66)	210
Total income tax (income) expense	(817)	2,027

The income tax in profit or loss varied from the amount determined by applying the Singapore income tax rate of 17% (2014: 17%) to profit before income tax as a result of the following differences:

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Profit before income tax	22,828	10,747
Less: Share of profit from an equity-accounted associate	(2,110)	(635)
Less: Share of profit from an equity-accounted joint venture	(174)	(198)
	20,544	9,914
Income tax expense at the above rate	3,492	1,685
Non-deductible items	216	401
Tax exemptions	(270)	(158)
Effect of different tax rates in different countries	20	36
(Over) under adjustments to tax in respect of prior years	(4,317)	42
Other minor items less than 3%	42	21
Total income tax (income) expense	(817)	2,027

There are no income tax consequences of dividends to owner of the company.

13. INCOME TAX (CONT'D)

13B. Deferred tax (income) expense recognised in profit or loss includes:

	Group	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Excess of net book values of property, plant and equipment over tax values	192	273
Provision	(53)	(63)
Deferred tax on inventories for unrealised profit	(222)	–
Others	17	–
Total deferred tax (income) expense	(66)	210

13C. Deferred tax balance in the statement of financial position:

	Group	
	2015 $'000	2014 $'000
From deferred tax liabilities recognised in profit or loss:		
Excess of net book values of property, plant and equipment over tax values	704	512
Provision	(116)	(63)
Deferred tax on inventories for unrealised profit	(222)	–
Others	17	–
Total deferred tax liabilities	383	449

It is impracticable to estimate the amount expected to be settled or used within one year.

14. DISPOSAL OF SUBSIDIARY

On 10 January 2014, a wholly-owned subsidiary of the company, Hafary Pte Ltd, entered into a sale and purchase agreement to dispose its entire shareholding interest in a wholly-owned subsidiary, Hafary China Pte. Ltd. As at date of sale and purchase agreement, Hafary China Pte. Ltd. held 45% equity interest in an associate, Hunan Cappuccino Construction Material Co., Limited ("HCCM"), which had been loss-making since its commencement of business in 2012. Investment in HCCM was fully impaired during the financial year ended 30 June 2013. The disposal was completed on 13 February 2014.

The results for the disposed subsidiary for the previous reporting year and for the period from the beginning of the reporting year to 13 February 2014, which have been included in the consolidated financial statements of the group, were as follows:

14. DISPOSAL OF SUBSIDIARY (CONT'D)

	Group	
	Period ended 13/02/2014 $'000	Year ended 30/06/2013 $'000
Revenue	–	–
Impairment losses	–	(4,020)
Payables written back	4	–
Other expenses	(4)	(9)
Share of loss from equity-accounted associate	–	(1,875)
Loss before tax	–	(5,904)
Income tax expense	–	–
Loss after tax before disposal	–	(5,904)
Gain on disposal of subsidiary	1,000	
Income tax expense	–	
Net gain on disposal of subsidiary	1,000	

A gain of $999,990 arose on the disposal of Hafary China Pte. Ltd., being the consideration received on disposal less the carrying amount of the subsidiary's net assets. No tax charge or credit arose from this transaction.

The following table summarised the carrying value of the account balances of Hafary China Pte. Ltd. on the date of disposal:

	Group	
	Period ended 13/02/2014 $'000	Year ended 30/06/2013 $'000
Trade and other receivables	– *	– *
Cash and cash equivalents	12	3
Trade and other payables	(12)	(6,095)
Net assets disposed off	–	
Gain on disposal of subsidiary	1,000	
Total consideration	1,000	
Satisfied by:		
Cash proceeds	1,000	

* Amount less than $1,000.

14. DISPOSAL OF SUBSIDIARY (CONT'D)

The movement of cash-flows of Hafary China Pte. Ltd. for the previous reporting year and for the period from the beginning of the reporting year to 13 February 2014, which had been included in the consolidated financial statements of the group, were as follows:

	Group	
	Period ended 13/02/2014	Year ended 30/06/2013
	$'000	$'000
Cash flows from operating activities	2	(22)
Cash flows from investing activities	–	–
Cash flows from financing activities	7	15
Total cash flows	9	(7)

15. EARNINGS PER SHARE

The following table illustrates the numerators and denominators used to calculate basic and diluted earnings per share of no par value:

	Group	
	2015 $'000	2014 $'000
Profit, net of tax attributable to owners of the parent	22,176	8,048

	Number of shares	
	2015 '000	2014 '000
Weighted average number of equity shares		
Basic	429,000	429,000

The weighted average number of equity shares refers to shares in circulation during the reporting period.

Basic earnings per share ratio is calculated by dividing profit, net of tax attributable to owners of the parent by the weighted average number of ordinary shares outstanding during each reporting year.

Diluted earnings per share is calculated by dividing profit, net of tax attributable to owners of the parent by the weighted average number of ordinary shares outstanding during each reporting year and the weighted average number of ordinary shares that would be issued on the conversion of all share options (potential dilutive ordinary shares) into ordinary shares.

Dilutive earnings per share for the reporting year are computed using the same basis as basic earnings per share as the dilutive effect of the performance shares is not significant.

16. DIVIDENDS ON EQUITY SHARES

	Group and company	
	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Final tax exempt (1-tier) dividends paid of 0.3 cent (2014: 2.5 cent) per share on total number of issued ordinary shares of 429,000,000 (2014: 429,000,000)	1,287	10,725
First interim tax exempt (1-tier) dividends paid of 1.0 cent (2014: 1.0 cent) per share on total number of issued ordinary shares of 429,000,000 (2014: 429,000,000)	4,290	4,290
Second interim tax exempt (1-tier) dividends payable of 0.5 cent per share on total number of issued ordinary shares of 429,000,000	2,145	–
Third interim tax exempt (1-tier) dividends payable of 0.5 cent per share on total number of issued ordinary shares of 429,000,000	2,145	–
Total dividends paid during the year	9,867	15,015

17. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold properties $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Cost:				
At 1 July 2013	49,871	4,739	2,075	56,685
Additions	15,974	2,202	613	18,789
Reversal	(335)	–	–	(335)
Reclassification	(115)	–	–	(115)
Disposals	–	(503)	(375)	(878)
At 30 June 2014	65,395	6,438	2,313	74,146
Additions	33,165	1,110	1,125	35,400
Disposals	–	(74)	(713)	(787)
Foreign exchange adjustments	427	1	4	432
At 31 December 2015	98,987	7,475	2,729	109,191

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group	Leasehold properties $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Accumulated depreciation:				
At 1 July 2013	1,055	2,418	1,088	4,561
Depreciation for the year	1,673	646	309	2,628
Disposals	–	(52)	(230)	(282)
At 30 June 2014	2,728	3,012	1,167	6,907
Depreciation for the year	3,069	1,125	516	4,710
Disposals	–	(54)	(249)	(303)
Foreign exchange adjustments	4	1	1	6
At 31 December 2015	5,801	4,084	1,435	11,320
Net book value:				
At 1 July 2013	48,816	2,321	987	52,124
At 30 June 2014	62,667	3,426	1,146	67,239
At 31 December 2015	93,186	3,391	1,294	97,871

Company	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Cost:			
At 1 July 2013	2	375	377
Addition	–	423	423
Disposals	–	(375)	(375)
At 30 June 2014	2	423	425
Addition	–	334	334
Disposals	–	(423)	(423)
At 31 December 2015	2	334	336
Accumulated depreciation:			
At 1 July 2013	2	187	189
Depreciation for the year	–	65	65
Disposals	–	(231)	(231)
At 30 June 2014	2	21	23
Depreciation for the year	–	118	118
Disposals	–	(106)	(106)
At 31 December 2015	2	33	35

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17. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Net book value:			
At 1 July 2013	–	188	188
At 30 June 2014	–	402	402
At 31 December 2015	–	301	301

As at the end of the reporting year, the group's leasehold properties with net book value of $87,782,000 (2014: $57,469,000) are mortgaged for bank facilities (Note 29).

Certain items are under finance lease agreements (Note 29J).

As at the end of the reporting year, the group's leasehold properties include land and building under redevelopment with a cost of $41,052,000 (2014: $9,174,000).

Borrowing costs included in the cost of qualifying assets are as follows:

	Group	
	2015 $'000	2014 $'000
Borrowing costs capitalised included in additions during the year	363	102
Accumulated interest capitalised included in the total costs	1,026	663

18. OTHER ASSET

Group	Land use right $'000
Cost:	
At 1 July 2013	–
Addition	4,804
At 30 June 2014	4,804
Foreign exchange adjustments	370
At 31 December 2015	5,174
Accumulated depreciation:	
At 1 July 2013	–
Depreciation for the year	33
At 30 June 2014	33
Depreciation for the year	186
Foreign exchange adjustments	5
At 31 December 2015	224
Net book value:	
At 1 July 2013	–
At 30 June 2014	4,771
At 31 December 2015	4,950

18. OTHER ASSET (CONT'D)

The land use right is for the land in People's Republic of China for group's inventories warehousing facility use. The land use right commenced on 31 December 2013 and expire on 30 December 2050, which is in 37 years time from the date when the right to use was granted to the group. The land use right is amortised over 37 years, being its right for use.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2015 $'000	2014 $'000
Unquoted equity shares at cost	9,239	9,239
Net book value of subsidiaries	44,341	29,915
Analysis of amounts denominated in non-functional currency:		
United States dollar	8,129	8,129

The listing of and information on the subsidiaries are given as below:

Name of subsidiaries, country of incorporation, place of operations and principal activities	Cost in books of the company		Effective percentage of equity held	
	2015 $'000	2014 $'000	2015 %	2014 %
Hafary Pte Ltd #a Singapore Importer and dealer of building materials	9,239	9,239	100	100
Held through Hafary Pte Ltd:				
Surface Project Pte. Ltd. #a Singapore Distribute and wholesale of building materials			70	70
Surface Stone Pte. Ltd. #a Singapore Dealer of stones for home furnishing			90	90
Wood Culture Pte. Ltd. #a #d Singapore Dealer of wood for home furnishing			100	100
Hafary Centre Pte. Ltd. #a Singapore Investment holding			100	100

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19. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The listing of and information on the subsidiaries are given as below: (cont'd)

Name of subsidiaries, country of incorporation, place of operations and principal activities	**Effective percentage of equity held**	
	2015	**2014**
	%	**%**
Hafary Vietnam Pte. Ltd. #a Singapore Investment holding	100	100
Hafary International Pte. Ltd. #a Singapore Importing and distribution of building materials	100	100
Hafary Trademarks Pte. Ltd. #a Singapore (Incorporated on 19 June 2015) Intellectual property holding and management	100	–
Marble Trends Pte. Ltd. #a #e Singapore Dealer of stones for home furnishing	100	100
World Furnishing Hub Pte. Ltd. #a #c Singapore Investment holding	46	46
Held through Hafary International Pte. Ltd.:		
Foshan Hafary Trading Co., Limited #b People's Republic of China Importing, exporting and distribution of building materials	100	100

#a Audited by RSM Chio Lim LLP, a member firm of RSM International.

#b Audited by SBA Stone Forest Shanghai Certified Public Accountants (Partnership), an affiliated firm of RSM Chio Lim LLP.

#c The group considers World Furnishing Hub Pte. Ltd. ("WFH") as a subsidiary as the group has management control over WFH through its indirect interest in WFH, via a director and a substantial shareholder.

#d Hafary Pte. Ltd. acquired the remaining 20% equity interest of subsidiary, Wood Culture Pte. Ltd. ("WCPL") from the non-controlling interest during the reporting year ended 30 June 2014. Consequently, WCPL became a wholly-owned subsidiary.

#e Hafary Pte. Ltd. acquired the remaining 50% equity interest of joint venture, Marble Trends Pte. Ltd. ("MTPL"), during the reporting year ended 30 June 2014. Consequently, MTPL became a wholly-owned subsidiary.

20. INVESTMENT IN ASSOCIATE

	Group	
	2015 **$'000**	**2014** **$'000**
Movements in carrying value:		
At beginning of the year	3,496	2,861
Share of profit for the year	2,110	635
Dividends	(222)	–
Total at end of the year	5,384	3,496
Carrying value comprising of:		
Unquoted equity shares at cost	2,061	2,061
Goodwill at cost	758	758
Share of post-acquisition profit, net of dividends	2,565	677
	5,384	3,496
Share of net book value of associate	4,753	2,680

The cost of investment in associate as at 31 December 2015 and 30 June 2014 are denominated in Vietnamese Dong.

The listing of and information on the associate is given as below:

Name of associate, country of incorporation, place of operations and principal activities (and independent auditors)	**Effective percentage of equity held**	
	2015 **%**	**2014** **%**
Viet Ceramics International Joint Stock Company ("VCI") #a	49	49
Socialist Republic of Vietnam		
Importer and dealer of building materials		
(RSM DTL Auditing Company)		

#a Audited by a member firm of RSM International of which RSM Chio Lim LLP in Singapore is a member.

The associate is considered material to the reporting entity. The summarised financial information of the associate and the amounts (and not the reporting entity's share of those amounts) based on the financial statements of the associate are as follows. These are adjusted to reflect adjustments made by the reporting entity when using the equity method.

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20. INVESTMENT IN ASSOCIATE (CONT'D)

	Group	
	2015 **$'000**	**2014** **$'000**
Non-current assets	2,535	1,747
Current assets	12,686	7,793
Current liabilities	5,522	4,070

	01.07.2014 to 31.12.2015 **$'000**	**01.07.2013 to 30.06.2014** **$'000**
Dividends received from the associate	222	–
Revenue	32,476	13,653
Profit for the year	4,307	1,296

	2015 **$'000**	**2014** **$'000**
Reconciliation:		
Net assets of the associate	9,699	5,470
Proportion of the reporting entity's interest in the associate	4,753	2,680
Goodwill	758	758
Intangible assets	90	90
Foreign exchange adjustments	(217)	(32)
	5,384	3,496

21. INVESTMENT IN JOINT VENTURE

	Group	
	2015 **$'000**	**2014** **$'000**
Movements in carrying value:		
At beginning of the year	278	160
Share of profit for the year	174	198
Dividends	(134)	(80)
Total at end of the year	318	278
Carrying value comprising of:		
Unquoted equity shares at cost	100	100
Share of post-acquisition profits, net of dividends	218	178
	318	278
Share of net book value of joint venture	318	278

21. INVESTMENT IN JOINT VENTURE (CONT'D)

The listing of and information on the joint venture is given as below:

Name of joint venture, country of incorporation, place of operations and principal activities	Effective percentage of equity held	
	2015 %	2014 %
Melmer Stoneworks Pte. Ltd. #a Singapore Cutting, shaping and finishing of stone	50	50

#a Audited by RSM Chio Lim LLP, a member firm of RSM International.

The joint venture is considered material to the reporting entity. The summarised financial information of the joint venture and the amounts (and not the reporting entity's share of those amounts) based on the financial statements of the joint venture are as follows. These are adjusted to reflect adjustments made by the reporting entity when using the equity method.

	Group	
	2015 $'000	2014 $'000
Non-current assets	354	45
Current assets	1,614	1,092
Non-current liabilities	19	13
Current liabilities	1,313	568

	01.07.2014 to 31.12.2015 $'000	01.07.2013 to 30.06.2014 $'000
Dividends received from the joint venture	134	80
Revenue	5,458	2,499
Profit for the year	347	396

	2015 $'000	2014 $'000
Reconciliation:		
Net assets of the joint venture	636	556
Proportion of the reporting entity's interest in the joint venture	318	278

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22. OTHER FINANCIAL ASSETS

	Group		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Balance is made up of:				
Quoted equity investment at fair value through profit or loss (Note 22A)	793	1,247	793	1,247
Unquoted investment at cost (Note 22B)	2,178	–	–	–
Total at end of the year	2,971	1,247	793	1,247

There are no investment pledged as security for liabilities.

Sensitivity analysis for price risk of equity shares is disclosed in Note 34H.

22A. Quoted equity investment at fair value through profit or loss

	Group and company	
	2015 $'000	2014 $'000
Movements during the year:		
Fair value at beginning of the year	1,247	–
Addition	–	1,058
(Decrease) increase in fair value through profit or loss under (other losses) other gains (Note 8)	(454)	189
Fair value at end of the year (Level 1)	793	1,247
Sector concentration within the investment portfolio:		
Retail and distribution industry: Singapore	793	1,247

22B. Unquoted investment at cost

	Group	
Name of company, country of incorporation and place of operation and principal activities	2015 $'000	2014 $'000
Foshan Griffiths Building Material Co., Ltd (China)		
Manufacturing and distribution of tiles		
Movements during the year:		
Cost at beginning of the year	–	–
Addition	2,178	–
Cost at end of the year (Level 3)	2,178	–

Foshan Griffiths Building Material Co., Ltd is a 10% owned investee which involves in manufacturing and distribution of tiles in China. The other 90% is owned by an external party who manages the investee. The reporting entity has no significant influence over this unquoted investment.

As far as unquoted equity instruments are concerned, in cases where it is not possible to reliably measure the fair value, such instruments are carried at cost less accumulated allowance for impairment. Impairment losses recognised in profit or loss for equity investments are not reversed.

23. INVENTORIES

	Group	
	2015 $'000	2014 $'000
Goods held for resale	46,979	41,356
Inventories are stated after allowance. Movement in allowance:		
Balance at beginning of the year	1,303	1,194
Charged to profit or loss included in impairment losses (Note 10)	1,171	135
Amount written off	–	(26)
Balance at end of the year	2,474	1,303

There are no inventories pledged as security for liabilities.

24. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Trade receivables:				
Outside parties	38,723	23,037	1	3
Less: Allowance for impairment	(1,155)	(1,199)	–	–
Subsidiaries (Note 3)	–	–	3,635	3,563
Joint venture (Note 3)	300	82	–	–
Associate (Note 3)	26	238	–	–
Other related parties (Note 3)	122	452	–	–
Director (Note 3)	3	263	–	–
Due from customers on work in progress contracts (24A)	413	253	–	–
Retention receivables on construction contracts	1,317	869	–	–
Subtotal	39,749	23,995	3,636	3,566
Other receivables:				
Subsidiaries (Note 3)	–	–	23,419	22,018
Joint venture (Note 3)	784	302	–	–
Associate (Note 3)	1,452	1,291	–	–
Staff loans	2	9	–	–
Refundable deposits	854	568	–	–
Others	382	655	–	255
Subtotal	3,474	2,825	23,419	22,273
Total trade and other receivables	43,223	26,820	27,055	25,839

24. TRADE AND OTHER RECEIVABLES (CONT'D)

	Group		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Movements in above allowance:				
Balance at beginning of the year	1,199	1,385	–	5,861
Charged to profit or loss included in impairment losses (Note 10)	922	240	–	–
Reversed to profit or loss included in impairment losses (Note 10)	(5)	(44)	–	–
Bad debts written off	(961)	(382)	–	(5,861)
Balance at end of the year	1,155	1,199	–	–

24A. Due from customers on work in progress contracts

	Group	
	2015 $'000	2014 $'000
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date on uncompleted contracts	2,370	838
Less: progress payments received and receivable to date	(1,957)	(585)
Net amount due from contract customers at end of the year	413	253

25. OTHER ASSETS

	Group		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Advance payments to suppliers	3,443	4,023	–	–
Prepayments	91	139	10	13
Deposits to secure services	267	108	–	–
Total other assets	3,801	4,270	10	13

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Not restricted in use	8,531	4,775	26	120
Restricted in use #a	–	82	–	–
	8,531	4,857	26	120

The interest earning balances are not significant.

#a This is for amount held on behalf of owners of development property to settle utilities expenses. This amount was fully refunded to owners during the reporting year.

26. CASH AND CASH EQUIVALENTS (CONT'D)

26A. Cash and cash equivalents in the consolidated statement of cash flows:

	Group	
	2015 $'000	2014 $'000
Amount as shown above	8,531	4,857
Restricted in use	–	(82)
Cash and cash equivalents for consolidated statement of cash flows purpose at end of the year	8,531	4,775

26B. Non-cash transactions:

During the reporting year, there were acquisitions of property, plant and equipment of $676,000 (2014: $214,000) acquired by means of finance leases.

27. SHARE CAPITAL

<u>Group and company:</u>	Number of shares issued '000	Share capital $'000
Ordinary shares of no par value:		
Balance at 1 July 2013, 30 June 2014 and 31 December 2015	429,000	26,634

The ordinary shares of no par value are fully paid, carry one vote each and have no right to fixed income.

Capital Management:

In order to maintain its listing on the Singapore Stock Exchange, it has to have share capital with a free float of at least 10% of the shares. The company met the capital requirement on its initial listing and the rules limiting treasury share purchases mean it will continue to satisfy that requirement, as it did throughout the reporting year. Management receives a report from the share registrars frequently on substantial share interests showing the non-free float to ensure continuing compliance with the 10% limit throughout the reporting year.

The management does not set a target level of gearing but uses capital opportunistically to support its business and to add value for shareholders. The key discipline adopted is to widen the margin between the return on capital employed and the cost of that capital.

The objectives when managing capital are: to safeguard the reporting entity's ability to continue as a going concern, so that it can continue to provide returns for owners and benefits for other stakeholders, and to provide an adequate return to owners by pricing the sales commensurately with the level of risk. The management sets the amount of capital to meet its requirements and the risk taken. There were no changes in the approach to capital management during the reporting year. The management manages the capital structure and makes adjustments to it where necessary or possible in the light of changes in conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the management may adjust the amount of dividends paid to owners, return capital to owners, issue new shares, or sell assets to reduce debt. Adjusted capital comprises all components of equity (that is, share capital and reserves).

27. SHARE CAPITAL (CONT'D)

The management monitors the capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital (as shown below). Net debt is calculated as total borrowings less cash and cash equivalents.

	Group	
	2015	**2014**
	$'000	**$'000**
Net debt:		
All current and non-current borrowings including finance leases	123,641	91,642
Less: Cash and cash equivalents	(8,531)	(4,857)
	115,110	86,785
Adjusted capital:		
Total equity	54,798	40,284
Debt-to-adjusted capital ratio	210.1%	215.4%

The improvement as shown by the decrease in the debt-to-adjusted capital ratio for the reporting year resulted primarily from the improved retained earnings.

28. OTHER RESERVES

	Group		Company	
	2015	**2014**	**2015**	**2014**
	$'000	**$'000**	**$'000**	**$'000**
Foreign currency translation reserve (Note 28A)	710	–	–	–
Equity-settled share-based compensation reserve (Note 28B)	119	–	119	–
Total at the end of the year	829	–	119	–

All reserves classified on the face of the statement of financial position as retained earnings represents past accumulated earnings and are distributable as cash dividends. The other reserves are not available for cash dividends unless realised.

28A. Foreign currency translation reserve

	Group	
	2015	**2014**
	$'000	**$'000**
At beginning of the year	–	–
Exchange differences on translating foreign operations	710	–
At end of the year	710	–

The foreign currency translation reserve represents exchange difference arising from the translation of the financial statements of foreign operations whose functional currencies are different from the presentation currency of the group.

28. OTHER RESERVES (CONT'D)

28B. Equity-settled share-based compensation reserve

	Group		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
At beginning of the year	–	–	–	–
Equity-settled share-based expenses	119	–	119	–
At end of the year	119	–	119	–

Hafary Performance Share Plan (the "Plan")

The Plan was approved by the members of the company at an annual general meeting held on 25 October 2013. The Plan provides for the grant of ordinary shares of the company, their equivalent cash value or combinations thereof, to selected employees of the company and its subsidiaries and independent directors of the company. Under the Plan, the maximum number of ordinary shares to be awarded to eligible participants shall not exceed 15% of the issued share capital (excluding treasury shares) of the company on the date preceding the grant of the award.

The Plan is administered by the Plan Committee comprising three independent directors, Mr. Chow Wen Kwan Marcus (Chairman), Mr. Ong Beng Chye and Mr. Terrance Tan Kong Hwa and an Executive Director, Mr. Low Kok Ann. Ordinary shares are vested when the Plan Committee is satisfied that the prescribed performance condition(s) have been achieved and the vesting period (if any) has expired.

The lapsing of the award is provided for upon the occurrence of certain events, which include:
(a) the misconduct of an eligible participant;
(b) the termination of the employment of an eligible participant;
(c) the bankruptcy of an eligible participant;
(d) the retirement, ill health, injury, disability or death of an eligible participant; and/or
(e) a take-over, amalgamation, winding-up or restructuring of the company.

The Plan shall continue in force at the discretion of the Plan Committee, subject to a maximum period of 10 years commencing on 25 October 2013. The Plan may continue beyond the above stipulated period with the approval of members of the company by ordinary resolution in a general meeting and of any relevant authorities which may then be required.

The company may deliver ordinary shares pursuant to awards granted under the Plan by way of:
(a) issuance of new ordinary shares;
(b) delivery of existing ordinary shares purchased from the market or ordinary shares held in treasury; and/or
(c) cash in lieu of ordinary shares, based on the aggregate market value of such ordinary shares.

During the reporting year, the number of performance shares granted, vested and cancelled under the Plan are as follows:

	Number of Hafary performance shares				
Granting date	As at 1 July 2014	Granted during the year	Vested during the year	Cancelled / lapsed during the year	As at 31 December 2015
1 August 2014	–	1,550,000	–	(250,000)	1,300,000

The above number of performance shares represents the shares required if participants are awarded at 100% of the grant. However, the performance shares vested at the vesting date are dependent on the level of achievement against the pre-set performance conditions and targets.

The equity-settled share-based compensation reserve is not available for distribution as cash dividends.

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29. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Non-current:				
Financial instruments with floating interest rates:				
Bank loan A (secured) (Note 29A)	–	76	–	–
Bank loans D (secured) (Note 29D)	14,732	15,826	–	–
Bank loans E (secured) (Note 29E)	–	13,314	–	–
Bank loan G (secured) (Note 29G)	7,352	7,352	–	–
Bank loan L (secured) (Note 29H)	14,037	–	–	–
Bank loan M (secured) (Note 29H)	12,633	–	–	–
Bank loan N (secured) (Note 29G)	11,790	–	–	–
Bank loan O (secured) (Note 29G)	5,000	–	–	–
Financial instruments with fixed interest rates:				
Finance leases (Note 29J)	324	373	121	165
Non-current, total	65,868	36,941	121	165
Current:				
Financial instruments with floating interest rates:				
Bank loan A (secured) (Note 29A)	–	294	–	–
Bank loan B (secured) (Note 29B)	3,500	4,000	–	–
Bank loan C (secured) (Note 29C)	1,500	1,500	–	–
Bank loans D (secured) (Note 29D)	737	770	–	–
Bank loans E (secured) (Note 29E)	–	1,145	–	–
Bank loans F (secured) (Note 29F)	5,000	3,000	–	–
Bank loan H (secured) (Note 29B)	5,000	5,000	–	–
Bank loan I (secured) (Note 29F)	–	19,848	–	–
Bank loan J (secured) (Note 29C)	1,500	–	–	–
Bank loan K (secured) (Note 29F)	10,000	–	–	–
Bank loan L (secured) (Note 29H)	963	–	–	–
Bank loan M (secured) (Note 29H)	867	–	–	–
Trust receipts and bills payable (Note 29I)	28,415	19,006	–	–
Financial instruments with fixed interest rates:				
Finance leases (Note 29J)	291	138	31	39
Current, total	57,773	54,701	31	39
Total	123,641	91,642	152	204

29. OTHER FINANCIAL LIABILITIES (CONT'D)

	Group		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
The non-current portion is repayable as follows:				
Due within 2 to 5 years	16,011	17,948	121	165
After 5 years	49,857	18,993	–	–
Total non-current portion	65,868	36,941	121	165

The ranges of floating interest rates per annum paid were as follows:

	Group	
	2015	2014
Bank loan A (secured)	2.37% to 3.00%	2.40%
Bank loan B (secured)	2.12% to 3.01%	1.96% to 2.12%
Bank loan C (secured)	2.00% to 3.19%	2.00%
Bank loans D (secured)	1.72% to 3.37%	1.70% to 2.12%
Bank loans E (secured)	1.93% to 2.81%	1.94% to 1.95%
Bank loans F (secured)	2.10% to 3.01%	2.11% to 2.15%
Bank loan G (secured)	1.90% to 2.70%	1.80%
Bank loan H (secured)	2.02% to 2.98%	2.00% to 2.05%
Bank loan I (secured)	2.23% to 3.04%	1.98% to 2.14%
Bank loan J (secured)	2.01% to 2.60%	–
Bank loan K (secured)	2.80%	–
Bank loan L (secured)	2.18%	–
Bank loan M (secured)	2.18%	–
Bank loan N (secured)	2.66% to 2.84%	–
Bank loan O (secured)	2.44% to 2.94%	–
Trust receipts and bills payable	1.00% to 6.00%	1.43% to 6.00%

The ranges of fixed interest rates per annum paid for finance leases and its average lease term were as follows:

	Group		Company	
	2015	2014	2015	2014
Rates per annum	1.10% to 2.28%	1.30% to 2.60%	2.28%	2.60%
Average lease term in years	2 to 5	3 to 5	5	5

29. OTHER FINANCIAL LIABILITIES (CONT'D)

29A. Bank loan A (secured)

The agreement for the bank loan provided among other matters for the following:

(i) Repayable by equal monthly instalments over 4 years from September 2011.
(ii) Legal mortgage on a leasehold property.
(iii) Corporate guarantee from the company.
(iv) Need to comply with certain financial covenants.

29B. Bank loans B and H (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by one lump sum within 6 months (unless rolled over for another interest period up to 6 months).
(ii) Legal mortgage on certain leasehold properties.
(iii) Corporate guarantee from the company.
(iv) Need to comply with certain financial covenants.

29C. Bank loans C and J (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by one lump sum within 6 months (unless rolled over for another interest period up to 6 months).
(ii) Corporate guarantee from the company.
(iii) Need to comply with certain financial covenants.

29D. Bank loans D (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by equal monthly instalments over 20 years from the date of disbursement.
(ii) The construction loan is repayable by monthly instalments after issuance of the Temporary Occupancy Permit for 3 Changi North Street 1, Singapore 498824 or on 30 June 2013, whichever is earlier.
(iii) Legal mortgage on certain leasehold properties.
(iv) Corporate guarantees from the company and a subsidiary.
(v) Need to comply with certain financial covenants.

29E. Bank loans E (secured)

The agreements for the term loans provided among other matters for the following:

(i) Repayable by equal monthly instalments over 12 years from the drawdown date of the term loan.
(ii) Legal mortgage on a leasehold property.
(iii) Legal assignment of current and future rental proceeds from the leasehold property and insurance proceeds in respect of the leasehold property.
(iv) Corporate guarantees from the company and a subsidiary.
(v) Need to comply with certain financial covenants.

29F. Bank loans F, I and K (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by one lump sum within 6 months (unless rolled over for another interest period of up to 6 months).
(ii) Legal mortgage on certain leasehold properties.
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

29. OTHER FINANCIAL LIABILITIES (CONT'D)

29G. Bank loans G, N and O (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by one lump sum within 3 months after issuance of the Temporary Occupancy Permit of 18 Sungei Kadut Street 2, Sungei Kadut Industrial Estate, Singapore 729236 or on 31 March 2017, whichever is earlier.
(ii) Legal mortgage on a leasehold property.
(iii) Legal assignment of construction contract, insurance policies, performance bonds (if any), tenancy agreements and sale and purchase agreement in respect of the proposed development.
(iv) Joint and several corporate guarantees from the company and a subsidiary.
(v) Personal guarantees from a director and a substantial shareholder.
(vi) Need to comply with certain financial covenants.

29H. Bank loans L and M (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by equal monthly instalments over 14 years from the date of disbursement.
(ii) Legal mortgage on certain leasehold properties.
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

29I. Trust receipts and bills payable

These are repayable within 150 to 180 days (2014: 150 to 180 days) and are guaranteed by the company.

29J. Finance leases

Group:	Minimum payments $'000	Finance charges $'000	Present value $'000
2015			
Minimum lease payments payable:			
Due within one year	305	(14)	291
Due within 2 to 5 years	334	(10)	324
Total	639	(24)	615
Net book values of motor vehicles under finance leases			888
2014			
Minimum lease payments payable:			
Due within one year	155	(17)	138
Due within 2 to 5 years	396	(23)	373
Total	551	(40)	511
Net book values of motor vehicles under finance leases			754

29. OTHER FINANCIAL LIABILITIES (CONT'D)

29J. Finance leases (cont'd)

Company:	Minimum payments $'000	Finance charges $'000	Present value $'000
2015			
Minimum lease payments payable:			
Due within one year	37	(6)	31
Due within 2 to 5 years	130	(9)	121
Total	167	(15)	152
Net book value of motor vehicle under finance leases			301
2014			
Minimum lease payments payable:			
Due within one year	48	(9)	39
Due within 2 to 5 years	181	(16)	165
Total	229	(25)	204
Net book value of motor vehicle under finance leases			402

There are leased assets under finance leases. All leases are on fixed repayment basis and no arrangements have been entered into for contingent rental payments. The obligations under finance leases are secured by the lessors' charge over the leased assets.

30. PROVISION

	Group	
	2015 $'000	2014 $'000
Provision for rebates	525	369
Movements in above provision:		
Balance at beginning of the year	369	328
Additions	525	369
Used	(369)	(328)
Balance at end of the year	525	369

31. TRADE AND OTHER PAYABLES

	Group		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
<u>Trade payables:</u>				
Outside parties and accrued liabilities	24,244	12,094	1,314	623
Joint venture (Note 3)	369	282	–	–
Other related parties (Note 3)	902	2	–	–
Subtotal	25,515	12,378	1,314	623
<u>Other payables:</u>				
Subsidiaries (Note 3)	–	–	9,390	8,001
Joint venture (Note 3)	11	52	–	–
Director (Note 3)	1,070	549	–	–
Shareholder (Note 3)	2,144	722	–	–
Outside parties	1,442	1,243	–	–
Subtotal	4,667	2,566	9,390	8,001
Total trade and other payables	30,182	14,944	10,704	8,624

32. OTHER LIABILITIES

	Group	
	2015 $'000	2014 $'000
Advance payments from customers	801	826
Deferred rent	94	–
Total other liabilities	895	826

33. DERIVATIVE FINANCIAL ASSETS (LIABILITIES)

	Group	
	2015 $'000	2014 $'000
<u>Assets (liabilities) - derivative with positive (negative) fair value:</u>		
Forward foreign exchange contracts – non-hedging instruments	44	(104)
The movements during the year were as follows:		
Balance at beginning of the year	(104)	197
Gain (loss) in profit or loss under other gains (other losses) (Note 8)	188	(301)
Settlement	(40)	–
Balance at end of the year	44	(104)

33. DERIVATIVE FINANCIAL ASSETS (LIABILITIES) (CONT'D)

33A. Forward foreign exchange contracts

These include the gross amount of all notional values for contracts that have not yet been settled or cancelled. The amount of notional value outstanding is not necessarily a measure or indication of market risk, as the exposure of certain contracts may be offset by that of other contracts.

	Reference currency- United States dollar		Reference currency- Euro		Total
Maturity	Principal	Fair value	Principal	Fair value	Fair value
	'000	$'000	'000	$'000	$'000
2015:					
Within the next 2 months	3,474	10	1,109	14	24
Within 3 to 4 months	3,388	11	1,100	2	13
Within 5 to 6 months	2,120	8	350	(1)	7
	8,982	29	2,559	15	44
2014:					
Within 8 months	6,750	(104)	–	–	(104)
	6,750	(104)	–	–	(104)

The purpose of these contracts is to mitigate the fluctuations of expected purchases (forecast transactions) denominated in the foreign currencies indicated above. The forward currency contracts are put in place in order to hedge the anticipated purchases that will be made in the foreign currencies indicated over the next reporting year.

The fair value (level 2) of forward foreign exchange contracts is based on current value of the difference between the contractual exchange rate and the market rate at the end of the reporting year. The valuation technique uses market observable inputs.

34. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

34A. Categories of financial assets and liabilities

The following table categorises the carrying amount of financial assets and liabilities recorded at the end of the reporting year:

	Group		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Financial assets:				
Cash and bank balances	8,531	4,857	26	120
Loans and receivables	43,223	26,820	27,055	25,839
Financial assets at fair value through profit or loss	837	1,247	793	1,247
Financial assets at cost less allowance for impairment	2,178	–	–	–
	54,769	32,924	27,874	27,206
Financial liabilities:				
Financial liabilities measured at amortised cost	123,641	91,642	152	204
Trade and other payables measured at amortised cost	30,182	14,944	10,704	8,624
Financial liabilities at fair value through profit or loss	–	104	–	–
	153,823	106,690	10,856	8,828

Further quantitative disclosures are included throughout these financial statements.

34B. Financial risk management

The main purpose for holding or issuing financial instruments is to raise and manage the finances for the entity's operating, investing and financing activities. There are exposures to the financial risks on the financial instruments such as credit risk, liquidity risk and market risk comprising interest rate risk, currency risk and price risk exposures. Management has certain practices for the management of financial risks. The guidelines set up the short and long term objectives and action to be taken in order to manage the financial risks. The guidelines include the following:

(i) Minimise interest rate, currency, credit and market risk for all kinds of transactions.
(ii) Maximise the use of "natural hedge": favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency and therefore put in place hedging strategies only for the excess balance. The same strategy is pursued with regard to interest rate risk.
(iii) All financial risk management activities are carried out and monitored by senior management staff.
(iv) All financial risk management activities are carried out following market practices.
(v) When appropriate, consideration is given to investing in shares or similar instruments.
(vi) When appropriate, consideration is given to entering into derivatives or any other similar instruments solely for hedging purposes.

The Financial Controller monitors the procedures and reports to the audit committee of the board.

There have been no changes to the exposures to risks, the objectives, policies and processes for managing the risks and the methods used to measure the risks.

34. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

34C. Fair values of financial instruments

The analyses of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 are disclosed in the relevant notes to the financial statements. These include both the significant financial instruments stated at amortised cost and at fair value in the statement of financial position. The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value.

34D. Credit risk on financial assets

Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner consist principally of cash balances with banks, cash equivalents, receivables and certain other financial assets. The maximum exposure to credit risk is: the total of the fair value of the financial assets; the maximum amount the entity could have to pay if the guarantee is called on; and the full amount of any loan payable commitment at the end of the reporting year. Credit risk on cash balances with banks and any other financial instruments is limited because the counter-parties are entities with acceptable credit ratings. For credit risk on receivables, an ongoing credit evaluation is performed on the financial condition of the debtors and a loss from impairment is recognised in profit or loss. The exposure to credit risk with customers is controlled by setting limits on the exposure to individual customers and these are disseminated to the relevant persons concerned and compliance is monitored by management. There is no significant concentration of credit risk on receivables, as the exposure is spread over a large number of counter-parties and customers.

Note 26 discloses the maturity of the cash and cash equivalents balances.

As part of the process of setting customer credit limits, different credit terms are used. The average credit period generally granted to trade receivable customers is about 60 days (2014: 60 days). But some customers take a longer period to settle the amounts.

(a) Ageing analysis of the age of trade receivable amounts that are past due as at the end of the reporting year but not impaired:

	Group	
	2015	**2014**
	$'000	**$'000**
Trade receivables:		
1 to 30 days	4,880	3,523
31 to 60 days	2,906	2,045
61 to 90 days	1,899	754
Over 90 days	10,919	6,136
Total	20,604	12,458

(b) Ageing analysis as at the end of the reporting year of trade receivable amounts that are impaired:

	Group	
	2015	**2014**
	$'000	**$'000**
Trade receivables:		
Over 90 days	1,155	1,199

34. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

34D. Credit risk on financial assets (cont'd)

The allowance which is disclosed in the note on trade receivables is based on individual accounts totalling $1,155,000 (2014: $1,199,000) of the group that are determined to be impaired at the end of the reporting year. These are not secured.

Other receivables are normally with no fixed terms and therefore there is no maturity.

34E. Liquidity risk – financial liabilities maturity analysis

The following table analyses the non-derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

Non-derivative financial liabilities: **Group**	**Less than 1 year** **$'000**	**1 to 5 years** **$'000**	**More than 5 years** **$'000**	**Total** **$'000**
2015:				
Gross borrowings commitments	59,261	22,319	57,959	139,539
Gross finance lease obligations	305	334	–	639
Trade and other payables	30,182	–	–	30,182
At end of the year	89,748	22,653	57,959	170,360
2014:				
Gross borrowings commitments	55,834	20,033	20,814	96,681
Gross finance lease obligations	155	396	–	551
Trade and other payables	14,944	–	–	14,944
At end of the year	70,933	20,429	20,814	112,176

Non-derivative financial liabilities: **Company**	**Less than 1 year** **$'000**	**1 to 5 years** **$'000**	**Total** **$'000**
2015:			
Gross finance lease obligations	37	130	167
Trade and other payables	10,704	–	10,704
At end of the year	10,741	130	10,871
2014:			
Gross finance lease obligations	48	181	229
Trade and other payables	8,624	–	8,624
At end of the year	8,672	181	8,853

The undiscounted amounts on the borrowings with fixed and floating interest rates are determined by reference to the conditions existing at the report date.

34. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

34E. Liquidity risk – financial liabilities maturity analysis (cont'd)

The following table analyses the derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

	Less than 1 year	
Derivative financial liabilities:	**2015 $'000**	**2014 $'000**
Group		
Forward currency contracts	16,649	8,449

The above amounts disclosed in the maturity analysis are the contractual undiscounted cash flows and such undiscounted cash flows differ from the amount included in the statements of financial position. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to pay.

Financial guarantee contracts - For issued financial guarantee contracts, the maximum earliest period in which the guarantee amount can be claimed by the other party is used. At the end of the reporting year, no claims on the financial guarantees are expected to be payable. The following table shows the maturity analysis of the contingent liabilities from financial guarantees:

Company	**Less than 1 year $'000**	**1 to 3 years $'000**	**3 to 5 years $'000**	**Total $'000**
2015:				
Financial guarantee contracts in favour of subsidiaries (Note 3)	57,482	12,996	40,750	111,228
2014:				
Financial guarantee contracts in favour of subsidiaries (Note 3)	54,564	13,981	18,993	87,538

The liquidity risk refers to the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is expected that all the liabilities will be paid at their contractual maturity. The average credit period taken to settle trade payables is about 60 days (2014: 60 days). The other payables are with short-term durations. The classification of the financial assets is shown in the statements of financial position as they may be available to meet liquidity needs and no further analysis is deemed necessary. In order to meet such cash commitments, the operating activities are expected to generate sufficient cash inflows.

Bank facilities:

	Group	
	2015 $'000	**2014 $'000**
Undrawn borrowing facilities	52,366	76,673
Unused bank guarantees	990	634

34. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

34E. Liquidity risk – financial liabilities maturity analysis (cont'd)

The undrawn borrowing facilities are available for operating activities and to settle other commitments. Borrowing facilities are maintained to ensure funds are available for the operations. A schedule showing the maturity of financial liabilities and unused bank facilities is provided regularly to management to assist in monitoring the liquidity risk.

34F. Interest rate risk

The interest rate risk exposure is from changes in fixed and floating interest rates and it mainly concerns financial liabilities which are both fixed rate and floating rate. The interest from financial assets including cash balances is not significant. The following table analyses the breakdown of the significant financial instruments by type of interest rate at the end of the reporting year:

	Group		Company	
	2015 $'000	**2014 $'000**	**2015 $'000**	**2014 $'000**
Financial liabilities:				
Fixed rates	615	511	152	204
Floating rates	123,026	91,131	–	–
Total at end of the year	123,641	91,642	152	204

The floating rate debt instruments are with interest rates that are re-set regularly at one, three or six month intervals. The interest rates are disclosed in the respective notes.

Sensitivity analysis:

	Group	
	2015 $'000	**2014 $'000**
Financial liabilities:		
A hypothetical increase in interest rates by 10 basis points with all other variables held constant would have decreased pre-tax profit for the year by:	124	92

The analysis has been performed for fixed interest rate and floating interest rate over a year for financial instruments. The impact of a change in interest rates on fixed interest rate financial instruments has been assessed in terms of changing of their fair value. The impact of a change in interest rates on floating interest rate financial instruments has been assessed in terms of changing of their cash flows and therefore in terms of the impact on net expenses. The hypothetical changes in basis points are not based on observable market data (unobservable inputs).

34. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

34G. Foreign currency risk

Analysis of amounts denominated in non-functional currencies:

Group:	United States dollars $'000	Euro $'000	Renminbi $'000	Vietnamese Dong $'000	Total $'000
2015:					
Financial assets:					
Cash and bank balances	–	–	–	213	213
Loans and receivables	2,107	–	–	11	2,118
Total financial assets	2,107	–	–	224	2,331
Financial liabilities:					
Other financial liabilities	16,360	7,560	–	–	23,920
Trade and other payables	1,847	533	–	–	2,380
Total financial liabilities	18,207	8,093	–	–	26,300
Net financial assets (liabilities)	(16,100)	(8,093)	–	224	(23,969)
2014:					
Financial assets:					
Loans and receivables	1,291	–	–	–	1,291
Total financial assets	1,291	–	–	–	1,291
Other financial liabilities	10,849	4,703	–	–	15,552
Trade and other payables	1,058	461	702	–	2,221
Total financial liabilities	11,907	5,164	702	–	17,773
Net financial liabilities	(10,616)	(5,164)	(702)	–	(16,482)

There is exposure to foreign currency risk as part of the group's normal business. In particular, there is significant exposure to United States dollar and Euro currency risk due to the large value of purchases denominated in these currencies. In this respect, forward currency contracts are entered into for the purpose of hedging the purchases in United States dollars and Euro. Note 33A illustrates the forward currency contracts in place at the end of the reporting year.

Sensitivity analysis:

	Group	
	2015 $'000	2014 $'000
A hypothetical 10% strengthening in the exchange rate of the functional currency against the following currencies with all other variables held constant would have a favourable (adverse) effect on pre-tax profit of:		
United States dollars	1,610	1,062
Euro	809	516
Renminbi	–	70
Vietnamese Dong	(22)	–

34. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

34G. Foreign currency risk (cont'd)

The above table shows sensitivity to a hypothetical 10% variation in the functional currency against the relevant non-functional foreign currencies. The sensitivity rate used is the reasonably possible change in foreign exchange rates. For similar rate weakening of the functional currency against the relevant foreign currencies above, there would be comparable impacts in the opposite direction.

The hypothetical changes in exchange rates are not based on observable market data (unobservable inputs). The sensitivity analysis is disclosed for each non-functional currency to which the group has significant exposure at the end of the reporting year. The analysis above has been carried out on the basis that there are no hedged transactions.

In management's opinion, the above sensitivity analysis is unrepresentative of the foreign currency risk as the historical exposure does not reflect the exposure in future.

34H. Equity price risk

There are investments in equity shares or similar instruments. Such investments are exposed to market price risk arising from uncertainties about future values of the investment securities.

Sensitivity analysis:

	Group	
	2015 $'000	2014 $'000
A hypothetical 10% increase in the market index of quoted equity shares would have an effect on pre-tax profit of:	79	125

For similar price decreases in the fair value of the above financial assets, there would be comparable impacts in the opposite direction.

35. CAPITAL COMMITMENTS

Estimated amounts committed at the end of the reporting year for future capital expenditure but not recognised in the financial statements are as follows:

	Group	
	2015 $'000	2014 $'000
Commitments to construct or develop leasehold property	18,179	638
Commitments to purchase property, plant and equipment	504	308

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36. OPERATING LEASE PAYMENT COMMITMENTS

At the end of the reporting year the total of future minimum lease payment commitments under non-cancellable operating leases are as follows:

	Group	
	2015 **$'000**	**2014** **$'000**
Not later than one year	3,265	2,230
Later than one year and not later than five years	6,156	4,719
Later than five years	14,762	15,910
Rental expenses for the year	4,244	2,191

Operating lease payments are for rentals payable for the company's office, warehouses and retail premises. The leases from Jurong Town Corporation are for thirteen and fourteen years. The lease rental terms, except for leases from Jurong Town Corporation, are negotiated for terms of one to three years and rentals are subject to an escalation clause but the amount of rent increase is not to exceed a certain percentage.

37. OPERATING LEASE INCOME COMMITMENTS

At the end of the reporting year, the total of future minimum lease receivables committed under non-cancellable operating leases are as follows:

	Group	
	2015 **$'000**	**2014** **$'000**
Not later than one year	1,410	1,145
Later than one year and not later than five years	518	1,334
Rental income for the year	3,278	924

Operating lease income commitments are for certain leasehold properties. The lease rental income terms are negotiated for an average term of three years and rentals are subject to an escalation clause but the amount of rent increase is not to exceed a certain percentage.

38. CHANGES AND ADOPTION OF FINANCIAL REPORTING STANDARDS

For the current reporting year new or revised Singapore Financial Reporting Standards and the related Interpretations to FRS ("INT FRS") were issued by the Singapore Accounting Standards Council. Those applicable to the reporting entity are listed below. These applicable new or revised standards did not require any material modification of the measurement methods or the presentation in the financial statements.

FRS No.	Title
FRS 1	Amendments to FRS 1: Disclosure Initiative (early application)
FRS 19	Amendments To FRS 19: Defined Benefit Plans: Employee Contributions
Various	Improvements to FRSs (Issued in January 2014). Relating to FRS 102 Share-based Payment FRS 103 Business Combinations FRS 108 Operating Segments FRS 113 Fair Value Measurement FRS 16 Property, Plant and Equipment FRS 24 Related Party Disclosures
Various	Improvements to FRSs (Issued in February 2014). Relating to FRS 103 Business Combinations FRS 113 Fair Value Measurement

39. FUTURE CHANGES IN FINANCIAL REPORTING STANDARDS

For the future reporting years new or revised Singapore Financial Reporting Standards and the related Interpretations to FRS ("INT FRS") were issued by the Singapore Accounting Standards Council and these will only be effective for future reporting years. Those applicable to the reporting entity for future reporting years are listed below. The transfer to the applicable new or revised standards from the effective dates is not expected to result in material adjustments to the financial position, results of operations, or cash flows for the following year.

FRS No.	Title	Effective date for periods beginning on or after
FRS 1	Amendments to FRS 1: Disclosure Initiative	1 January 2016
FRS 16 and 38	Amendments to FRS 16 and FRS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
FRS 27	Amendments to FRS 27: Equity Method in Separate Financial Statements	1 January 2016
FRS 110 and 28	Amendments to FRS 110 and FRS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
FRS 115	Revenue from Contracts with Customers	1 January 2018
FRS 109	Financial Instruments	1 January 2018

40. EVENTS AFTER THE END OF REPORTING YEAR

On 5 February 2016, the group incorporated a wholly-owned subsidiary, Hafary Balestier Showroom Pte. Ltd. The share capital of Hafary Balestier Showroom Pte. Ltd. is $100.

41. COMPARATIVE FIGURES

The financial statements for 2015 cover the reporting year from 1 July 2014 to 31 December 2015. The financial statements for 2014 cover the twelve months ended 30 June 2014. Therefore, the comparative amounts for the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Statements of Changes in Equity, Consolidated Statement of Cash Flows and related notes are not entirely comparable. The change in the end of the reporting year date was made to coincide with that of the parent company.

STATISTICS OF SHAREHOLDINGS

As at 3 March 2016

Number of shares	:	429,000,000
Class of equity securities	:	Ordinary
Voting rights	:	One vote per ordinary share
Treasury shares	:	Nil

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	–	–	–	–
100 - 1,000	12	1.52	7,300	–*
1,001 - 10,000	201	25.51	1,388,440	0.32
10,001 - 1,000,000	561	71.19	34,218,720	7.98
1,000,001 AND ABOVE	14	1.78	393,385,540	91.70
TOTAL	**788**	**100.00**	**429,000,000**	**100.00**

* Less than 0.01 %

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
HAP SENG INVESTMENT HOLDINGS PTE LTD [1]	-	-	218,790,000	51.00
HAP SENG CONSOLIDATED BERHAD [2]	-	-	218,790,000	51.00
GEK POH (HOLDINGS) SDN BHD [2]	-	-	218,790,000	51.00
MAGIC PRINCIPLE ASSETS LIMITED [3]	-	-	218,790,000	51.00
HSBC INTERNATIONAL TRUSTEE LIMITED [3]	-	-	218,790,000	51.00
TAN SRI DATUK SERI PANGLIMA LAU CHO KUN @ LAU YU CHAK [4]	-	-	218,790,000	51.00
LOW KOK ANN [5]	35,404,703	8.25	-	-
LOW SEE CHING [5]	113,900	0.03	69,553,400 [6]	16.21
CHING CHIAT KWONG	-	-	32,156,730 [7]	7.50

Notes:

(1) 218,790,000 ordinary shares are held in the name of Maybank Nominees (Singapore) Private Limited.

(2) Gek Poh (Holdings) Sdn. Bhd. ("GPH") holds a 59.15% interest in Hap Seng Consolidated Berhad ("HSCB"), which wholly-owns Hap Seng Investment Holdings Pte Ltd ("HSIHPL"). GPH and HSCB are each deemed to be interested in the 218,790,000 shares which HSIHPL is interested in, pursuant to Section 7 of the Companies Act, Chapter 50 ("the Act").

(3) Magic Principle Assets Limited ("MPAL") holds a 44% interest in GPH, and is wholly-owned by HSBC International Trustee Limited ("HSBC"). MPAL and HSBC are deemed interested in the 218,790,000 shares which HSIHPL is interested in, pursuant to Section 7 of the Act.

(4) Tan Sri Datuk Seri Panglima Lau Cho Kun @ Lau Yu Chak holds a 56% interest in GPH, and is deemed to be interested in the 218,790,000 shares which HSIHPL is interested in, pursuant to Section 7 of the Act.

(5) Low Kok Ann is the father of Low See Ching.

(6) 12,387,700 ordinary shares are held in the name of Bank of Singapore Nominees Pte Ltd, 19,665,700 ordinary shares are held in the name of OCBC Securities Private Limited, 32,500,000 ordinary shares are held in the name of Hong Leong Finance Nominees Pte Ltd and 5,000,000 ordinary shares are held in the name of DB Nominees (Singapore) Pte Ltd.

(7) 6,081,400 ordinary shares are held in the name of Bank of Singapore Nominees Pte Ltd, 17,497,700 ordinary shares are held in the name of DB Nominees (Singapore) Pte Ltd, 412,200 ordinary shares are held in name of OCBC Securities Private Limited and 8,165,430 ordinary shares are held in the name of Raffles Nominees (Pte) Limited.

STATISTICS OF SHAREHOLDINGS

As at 3 March 2016

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	MAYBANK NOMINEES (SINGAPORE) PRIVATE LIMITED	224,790,000	52.40
2	LOW KOK ANN	35,404,703	8.25
3	HONG LEONG FINANCE NOMINEES PTE LTD	34,197,000	7.97
4	DB NOMINEES (SINGAPORE) PTE LTD	22,508,700	5.25
5	OCBC SECURITIES PRIVATE LIMITED	20,726,000	4.83
6	BANK OF SINGAPORE NOMINEES PTE. LTD.	18,469,100	4.31
7	LOW BEE LAN AUDREY	16,536,707	3.85
8	RAFFLES NOMINEES (PTE) LIMITED	8,923,550	2.08
9	UOB KAY HIAN PRIVATE LIMITED	3,064,900	0.71
10	TEE WEE SIEN (ZHENG WEIXIAN)	2,364,200	0.55
11	PHOON WAIE KUAN	2,295,480	0.54
12	GOH KEE CHOO (WU QIZHU)	1,578,700	0.37
13	LOW EE HWEE	1,277,200	0.30
14	NOVA FURNISHING HOLDINGS PTE LTD	1,249,300	0.29
15	CIMB SECURITIES (SINGAPORE) PTE. LTD.	870,070	0.20
16	CHUA CHEE WUI	755,000	0.18
17	DBS NOMINEES (PRIVATE) LIMITED	706,000	0.16
18	AGUS SUTJIAWAN	657,400	0.15
19	PHILLIP SECURITIES PTE LTD	578,700	0.13
20	EVANGELIN YEW LEET LING (EVANGELIN YAO LILING)	551,400	0.13
	TOTAL	**397,504,110**	**92.65**

PERCENTAGE OF SHAREHOLDING IN PUBLIC HANDS

13.16% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of The Singapore Exchange Securities Trading Limited Manual.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Hafary Holdings Limited ("the Company") will be held at 8 Wilkie Road, #03-08 Wilkie Edge, Singapore 228095 on Monday, 11 April 2016 at 11.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial period ended 31 December 2015 together with the Independent Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to Article 104 of the Constitution of the Company:

   Mr Low See Ching **(Resolution 2)**
   Mr Terrance Tan Kong Hwa **(Resolution 3)**

   Mr Terrance Tan Kong Hwa will, upon re-election as Director of the Company, remain as Chairman of the Nominating Committee and a member of the Audit Committee and Remuneration Committee and will be considered independent.

3. To re-elect the following Directors of the Company retiring pursuant to Article 108 of the Constitution of the Company:

   Datuk Edward Lee Ming Foo, JP **(Resolution 4)**
   Ms Cheah Yee Leng **(Resolution 5)**
   Mr Yeow Wai Siaw **(Resolution 6)**

4. To approve the payment of Directors' Fees of S$285,833 for the financial period from 1 July 2014 to 31 December 2015. (12 months FY2014: S$154,000*)*. **(Resolution 7)**

5. To re-appoint Messrs RSM Chio Lim LLP as Independent Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 8)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

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

7. **Authority to issue shares**

   That pursuant to Section 161 of the Companies Act, Chapter 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be and are hereby authorised and empowered to:

   (a) (i) issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may, in their absolute discretion, deem fit; and

   (b) (notwithstanding the authority conferred by this Resolution that may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force, provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments and, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares shall be based on the total number of issued shares in the capital of the Company at the time of passing this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of passing this Resolution; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Constitution of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)] **(Resolution 9)**

8. **Authority to offer and grant awards and to allot and issue shares under the *Hafary Performance Share Plan***

That pursuant to Section 161 of the Companies Act, Chapter 50, the Directors of the Company be and are hereby authorised and empowered to offer and grant awards in accordance with the provisions of the prevailing Hafary Performance Share Plan (“the Plan”) and to allot and issue and/or deliver such number of new shares as may be required to be delivered pursuant to the vesting of the awards under the Plan, provided always that the aggregate number of shares to be delivered pursuant to the Plan, shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue to be in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (ii)] **(Resolution 10)**

By Order of the Board

Tay Eng Kiat Jackson
Company Secretary
Singapore, 24 March 2016

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

(i) The Ordinary Resolution 9 in item 7 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

(ii) The Ordinary Resolution 10 in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a General Meeting, whichever is earlier, to offer and grant awards under the Plan in accordance with the provision of the Plan and to deliver from time to time such number of new shares as may be required to be delivered pursuant to the vesting of the wards under the Plan up to a number not exceeding in aggregate (for the entire duration of the Plan) fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 105 Eunos Avenue 3 Hafary Centre Singapore 409836 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

HAFARY HOLDINGS LIMITED
Company Registration No. 200918637C
(Incorporated In The Republic of Singapore)

IMPORTANT:
1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see note 4 for the definition of "relevant intermediary").
2. For investors who have used their CPF monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely **FOR INFORMATION ONLY.**
3. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, ____________________

of ____________________
being a member/members of HAFARY HOLDINGS LIMITED (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above , the Chairman of the Annual General Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held on Monday, 11 April 2016 at 11.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the Meeting and at any adjournment thereof.

No.	Resolutions relating to:	Number of Votes For[(1)]	Number of Votes Against[(1)]
1	Directors' Statement and Audited Financial Statements for the financial period ended 31 December 2015		
2	Re-election of Mr Low See Ching as Director		
3	Re-election of Mr Terrance Tan Kong Hwa as Director		
4	Re-election of Datuk Edward Lee Ming Foo, JP as Director		
5	Re-election of Ms Cheah Yee Leng as Director		
6	Re-election of Mr Yeow Wai Siaw as Director		
7	Approval of Directors' Fees amounting to S$285,833 for the financial period from 1 July 2014 to 31 December 2015		
9	Re-appointment of Messrs RSM Chio Lim LLP as Independent Auditors		
10	Authority to issue shares		
11	Authority to offer and grant awards and to allot and issue shares under the Hafary Performance Share Plan		

[(1)] *If you wish to exercise all your votes "For" or "Against", please tick within the box provided. Alternatively, please indicate the number of votes as appropriate.*

Dated this ____________ day of ________________ 2016

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

____
Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

*Delete where inapplicable

Notes :

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. A member who is a relevant intermediary entitled to attend the meeting and vote is entitled to appoint more than two proxies to attend and vote instead of the member, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member appoints more than two proxies, the appointments shall be invalid unless the member specifies the number of Shares in relation to which each proxy has been appointed.

   "Relevant intermediary" means:

   (a) a banking corporation licensed under the Banking Act (Chapter 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;
   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) and who holds shares in that capacity; or
   (c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 105 Eunos Avenue 3, Hafary Centre, Singapore 409836 not less than 48 hours before the time appointed for the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

PERSONAL DATA PRIVACY:
By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 24 March 2016.

General:
The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

OUR SHOWROOMS

HAFARY GALLERY

105 Eunos Avenue 3 Hafary Centre Singapore 409836

Tel: 6250 1368 Fax: 6383 1536

Email: eunosshowroom@hafary.com.sg

Mon to Sat: 9.00am – 7.00pm

Sun and PH: 10.30am – 5.30pm

HAFARY BALESTIER

560 Balestier Road Singapore 329876

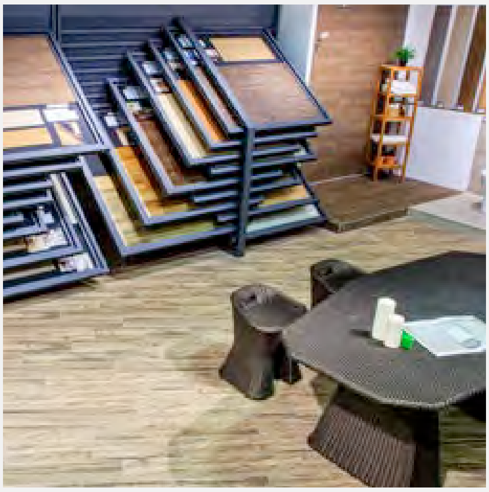
Tel: 6250 1369 Fax: 6255 4450

Email: balestiershowroom@hafary.com.sg

Mon to Fri: 9.00am – 7.30pm

Sat: 9.00am – 7.00pm

Sun and PH: 10.30am – 5.00pm



HAFARY TRADEHUB 21

18 Boon Lay Way #01-132 Tradehub 21

Singapore 609966

Tel: 6570 6265 Fax: 6570 8425

Email: tradehub21showroom@hafary.com.sg

Mon to Sat: 10.00am – 7.00pm

Sun and PH: 10.00am – 5.00pm

合發利控股有限公司
HAFARY HOLDINGS LIMITED

(Company Registration No. 200918637C)
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