



Carpeting from Asia *to the* World

ANNUAL REPORT 2016

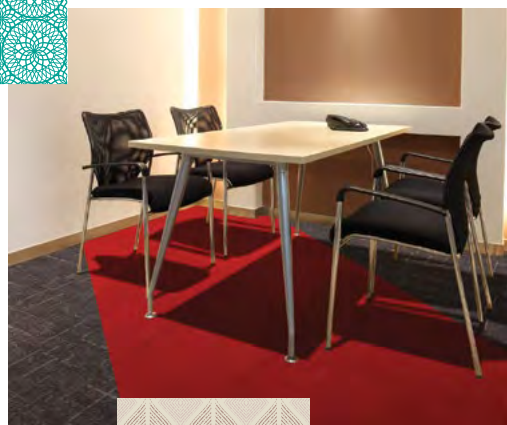
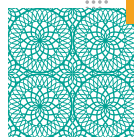
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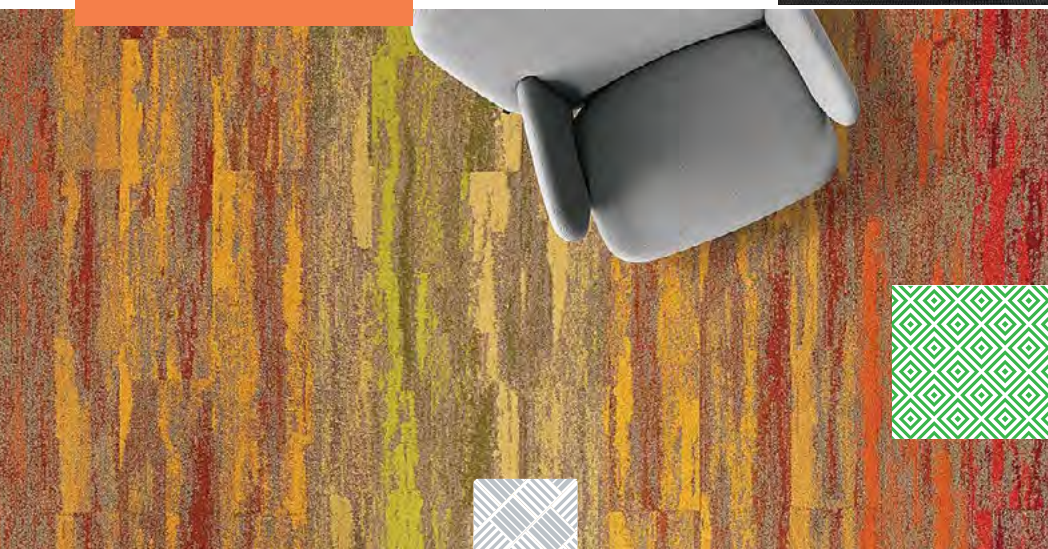
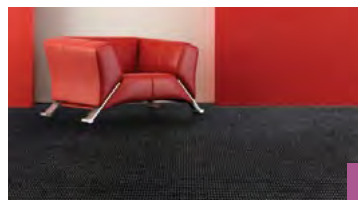
This annual report has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, Hong Leong Finance Limited (the "Sponsor") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The Sponsor has not independently verified the contents of this annual report.

This annual report has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this annual report, including the correctness of any of the statements or opinions made or reports contained in this annual report.

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Corporate Profile



SMJ Furnishings (S) Pte Ltd (“SMJF”) was set up in 1988 and specialises in the supply and installation of carpet tiles and broadloom carpets. SMJF is a subsidiary corporation of SMJ International Holdings Ltd. and together with its subsidiary corporations, (collectively referred to as the “Group”), which was listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”) Catalist Board on 30 June 2014.

With an established reputation and track record of more than 25 years, the Group specialises in the sale and distribution of a wide range of carpets marketed under its “SMJ” brand through its global distribution network of more than 260 carpet dealers, carpet importers and carpet installation companies in Singapore and over 20 countries, mainly in Asia.

The Group is the exclusive distributor for the Mohawk Industries, Inc’s (“Mohawk Group”), “LEES”, “Bigelow” and “Duracolor” range of carpets for Singapore, Malaysia and Indonesia. The Group is also the authorised distributor for Mohawk Group’s luxury vinyl tiles. It is also an authorised supplier for the Nox Corporation range of vinyl tiles in Singapore.

The Group is in the process of diversifying its core business to include property investment and management. Two new subsidiary corporations namely Elite Management (Singapore) Pte. Ltd. and Beijing Zhuoyue Tiancheng Business Management Co. Ltd have been incorporated in Singapore and China respectively to carry out the property business. The diversification will benefit the Group by enlarging the revenue base and improve the growth prospects of the Group, while complementing the existing business.

Distribution Network



- 1. Australia
- 2. Brunei
- 3. Chile
- 4. China
- 5. Hong Kong
- 6. India

- 7. Indonesia
- 8. Korea
- 9. Kuwait
- 10. Philippines
- 11. Maldives
- 12. Malaysia

- 13. Saudi Arabia
- 14. Singapore
- 15. Sri Lanka
- 16. Taiwan
- 17. Thailand
- 18. United Kingdom

- 19. UAE
- 20. Uruguay
- 21. Vietnam



We specialise in the sale and distribution of a wide range of premier carpets globally marketed under our proprietary “SMJ” brand. To support the global demand for our carpets, we have established a wide distribution network of more than 260 distributors in more than 20 countries.

One of our major strengths is having a large inventory program of approximately \$4.6 million in Singapore.

We stock up more than 90 different designs of carpets in over 400 colours at our 42,614 sq ft warehouse.

With a wide variety of carpet stocks in different designs and colours, we have the ability to fulfill orders within a short turnaround time. One advantage that we possess is the ability to respond to customers’ orders within the next working day if we have available stock in our Singapore warehouse.

Chairman's Statement



Dear Valued Shareholders,

On behalf of the Board of Directors (the "Board"), it is my pleasure to present to you the annual report of SMJ International Holdings Ltd. (the "Company") and its subsidiary corporations (collectively referred to as the "Group"), for the financial year ended 31 December 2016 ("FY2016").

The construction industry faced a fair bit of headwinds in FY2016. Major events such as the United Kingdom's vote to leave the European Union, the weak oil and gas sector and the United States presidential election have affected markets. These, coupled with a strengthening US dollar and increasing interest rates, have caused a slowdown in private sector renovations. In Singapore, we are also seeing cutbacks in project budgets that will go well into 2017, as companies seek to conserve cash in anticipation of a slower economy. All these have impacted our bottom line.

Over the past two financial years, the Government has also exercised similar prudence in their offices' renovation works. The pie continues to shrink and while it remains a focus area for us, we have also moved swiftly to diversify our markets by looking at emerging economies. We have further expanded and strengthened our regional networks, especially in Myanmar, Cambodia, India, Australia and Thailand.

In addition, we are in the process of developing carpets with our partner factories that can meet the price-sensitive market. This is in line with our relentless effort to build on our track record as a carpet dealer with a great variety of options to suit every carpeting need.

With these mitigating moves in place, we are confident of staying the course of internationalising our business. Besides, with our years of experience and good track record, we will also be able to overcome any potential challenges and keep our eyes focused on long-term goals.

We also retain the confidence of our banks, who are well aware of the current economic climate that might be bearish in 2017. While sales turnover could remain below our peaks, we have been prudent in accumulating our reserves and managing debt levels.

REVIEW OF 2016

In anticipation of the decrease in sales in Singapore, we have compensated with a strategy of expanding our presence overseas. Most notably, we have established new dealerships in South East Asia, India and Australia. We hope to see an increase in our export sales, which will compensate any decline in local sales.

Another strategic move the Group has undertaken was to incorporate a wholly owned subsidiary corporation, Elite Management (Singapore) Pte. Ltd.

("Elite Management") in Singapore. This represents a diversification of the Group into the adjacent industry of dealing with property. We believe that the diversification will provide an opportunity for us to leverage on our current network, experience and knowledge in the carpet furnishing business, and to identify and seek suitable business opportunities in the property business.

However, the year has undoubtedly been challenging. Distribution sales in Malaysia and Saudi Arabia saw significant reduction of 50.0% and 51.4% in sales turnover respectively. This was due to the implementation of GST and the weakening of the Malaysian Ringgit in the case of Malaysia, and the weak crude oil prices and unrest in the country in the case of Saudi Arabia.

LOOKING AHEAD

As we move into 2017, we can look forward to our Indonesian Joint Venture ("JV"), PT Spektrum Megah Jaya ("PT Spektrum"), which will market our SMJ and Mohawk brands of carpets, go into full operation. This is significant – Indonesia has been a bright spot for us, where we saw a 19.5% increase in sales in FY2016, and we foresee that it will continue to be an important rising star.

In addition, our newly incorporated subsidiary corporation, Elite Management will likely see some business activities, which will add new revenue streams to the Group.

IN APPRECIATION

It is my pleasure to welcome Mr Peng Weile as an Executive Director to the Board. Also, my heartiest welcome to Mr Peng Fei, who has joined the Board as a Non-Executive Director. Mr Peng Weile will also be spearheading our entry into the property business.

On behalf of the Board, I would like to take this opportunity to place on record our thanks and appreciation to the management and staff for their dedication and hard work for the Group. Their efforts behind the scenes have been crucial to help the Group stay on an even keel, and keep focus on our long term goals.

Last but not least, we would like to thank you, our dear shareholders, for your unwavering support. It is with your mandate that we are able to expand our business offering into the property investment and management space.

While sentiments regarding the economy remain weak, I am confident that together, we will emerge stronger and better for it.

Ho D'Orville Raymond

Independent Non-Executive Chairman

CEO's Statement



“ To keep ahead of the competition and stay relevant, we at SMJ are working closely with our partner factories in the development of new carpets suitable for projects with a low budget. In addition, we are working closely with our suppliers to provide well designed carpets at a competitive price. ”



Dear Shareholders,

FY2016 remained a challenging year for the Group as we continued to grapple with a slowing down of the construction sector, as well as larger macroeconomic issues such as a strengthening US dollar and a significant fall in value of the Malaysian Ringgit. For FY2016, the Group aggressively pursued a policy of promoting and marketing its brand and products both locally and overseas. In addition, we looked into the diversification of our business into property investment and management, in a bid to chart new territory and unleash our hitherto untapped potential and synergies.

FY2016 HIGHLIGHTS

The Group operated in a very competitive landscape in FY2016. To illustrate this, we saw many big projects being tendered out in the Philippines, but they could only be won with low pricing. Back home in Singapore, we saw building renovation budgets being shaved, and many suppliers lowering their prices to compete.

To keep ahead of the competition and stay relevant, we at SMJ are working closely with our partner factories in the development of new carpets suitable for projects with a low budget. In addition, we are working closely with our suppliers to provide well designed carpets at a competitive price. Finally, our investment in our inventory and distribution systems mean less wait time for clients, further enhancing the value we can bring.

In the region, we continue to make breakthroughs. Our Indonesian JV, PT Spektrum, was incorporated on 10 November 2016. The Indonesian market has been a bright spot in ASEAN, with a respectable 5% growth in GDP, with analysts expecting such growth to last till at least 2018.

Another key development was the incorporation of our wholly owned subsidiary corporation in Singapore, Elite Management on 20 July 2016. Elite Management was incorporated to carry out the property business as a separate business division. In our continued search for new opportunities, the Group decided on the property and hospitality industry with which we have frequent contact during the course of our business. It is our belief that with our experience and competencies in the furnishing business, this diversification into the property business will benefit the Group by enlarging our revenue base and improve our growth prospects, while complementing our existing business. There is certainly a very strong synergy between our core business and the property business, and we will be able to unlock new value for the Group.

BUSINESS OUTLOOK

While there is a general consensus that the Singapore economy will remain muted, it is heartening to note that construction activities in 2017 will actually increase in value. According to the Building and Construction Authority (“BCA”), the value of construction contracts in 2017 is expected to rise to S\$35 billion, up from 2016’s preliminary estimates of S\$26 billion. Out of this, public sector projects are expected to account for approximately 70% of total construction demand, mainly on the back of an increase in demand for most building types and civil engineering works. While this is good news, we must bear in mind that pricing for government-related projects that require carpeting is expected to be competitive. Private sector construction is expected to remain subdued due to economic uncertainties and the property market slowdown.





The Group will continue its efforts to enhance export distribution sales in the region, especially in Indonesia, Malaysia and Philippines. With the development of new designs for SMJ carpet tiles and our vinyl tiles, we will have more products to offer our dealers and this in turn, will help to increase our export sales.

We also hope to see more activities from the Indonesian market with the successful incorporation of PT Spektrum. PT Spektrum will be distributing both our SMJ range of carpets, as well as the Mohawk brand of carpets. According to analysts, the Indonesian construction industry is expected to grow by some 7% in 2017, and an average of 7.8% between 2017 and 2021, with the residential/non-residential building sector showing the strongest growth rates. These represent tremendous business opportunities and we are well poised to capitalise on this with our new JV.

Elsewhere, construction spending is expected to exceed Asia's regional average in China, India, Vietnam, Bangladesh, Indonesia and Thailand over the next five years. In addition, the Philippines and Myanmar are also showing good growth potential. I am pleased to say that we have presence in almost all these countries, and we expect to be able to leverage opportunities there.

Besides growing organically, we will continue to actively seek new business opportunities in potential acquisitions, joint ventures and/or strategic alliances within the furnishings industry to expand the business of the Group and enhance our shareholders' value.

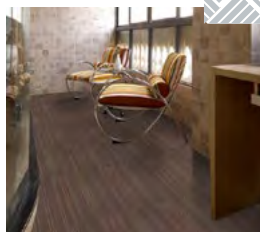
IN APPRECIATION

In conclusion, I would like to express my heartfelt appreciation to our clients, suppliers and business associates who have come alongside us despite these challenging times. Next, my sincere thanks to our staff who have worked very hard to lay the groundwork for our expansion, generate sales and provide quality service to our clients. Last but not least, I would like to thank you, our shareholders, for your continued support and faith in us as we remain focused on the longer term growth and expansion vision of the Group.

Ho Pei Yuen Rena

Executive Director and Chief Executive Officer

Board of Directors



HO D'ORVILLE RAYMOND

Ho D'Orville Raymond is our Independent Non-Executive Chairman and was appointed to our Board on 3 June 2014. He is also the Chairman of our Audit Committee.

From 1963 and 1970, Mr Ho was with Cycle & Carriage Company (Industries) Pte Ltd as finance manager and company secretary in charge of finance, human resource and general management. He later served as the finance controller of Vetco Pte Ltd, an MNC based in the United States which produces connectors and drill pipes for the petroleum industry between 1970 and 1975.

From 1976 to 2006, Mr Ho was the founder and Chief Executive Officer of Systematic Commercial Training Centre, an institution offering business related courses in Singapore and Malaysia. From 2006 to 2012, Mr Ho served as an Independent Director of Infinio Group Limited, a company listed on Catalist and from 2012 to 2014, he was an executive director of Infinio Group Limited, where he was responsible for its overall management.

Mr Ho holds an associateship in Commerce from Perth Technical College. He was a certified public accountant (Australia) and a qualified teacher who taught accountancy, economics, and cost and management accounting and had also provided educational consultancy services to tertiary institutions in Vietnam, Cambodia, Thailand and Indonesia.

HO PEI YUEN RENA

Ho Pei Yuen Rena is the Executive Director and Chief Executive Officer ("CEO") of our Group and is responsible for the formulation of our Group's strategic directions, expansion plans and managing our Group's overall business development. In addition, she oversees local sales and marketing function of our Group.

Ms Ho joined our Group in 1997 and rose through the ranks from administrative assistant, local sales co-ordinator, becoming an Executive Director in 2002 and subsequently CEO in 2014. During her time with our Group, she gained experience on various products in carpet industry and spearheaded the growth of our local sales and marketing department with effective sales strategies and techniques.

Ms Ho graduated from Nanyang Technological University with a Bachelor's degree in Business (Honours) in 1997.



HO WAN JING NELLIE

Ho Wan Jing Nellie is the Executive Director and Deputy CEO of our Group and her primary role is to formulate the viable expansion plans and business development for overseas markets. Ms Ho is responsible for export sales and marketing function and monitoring the implementation of all expansion plans and policies for overseas markets.

Ms Ho joined our Group in 1999 starting as an administrative assistant, export sales co-ordinator, becoming an Executive Director in 2002 and subsequently Deputy CEO in 2014. Her experience in handling overseas customers and distributorships led to the continuous growth of our Distribution Sales department.

Ms Ho has been admitted as a Certified Accounting Technician of the Association of Chartered Certified Accountants in 2001.

LEE LAY CHOO

Lee Lay Choo is the Executive Director and Chief Operating Officer (“COO”) of our Group.

Ms Lee started her career in 1979 with Carpets & Furnishings (United Agencies Pte Ltd) as administrative assistant in charge of administrative duties and local client delivery scheduling. In 1981, she joined Hong Fook Realty Pte Ltd as administrative assistant in charge of administrative duties.

Ms Lee joined our Group in 1988 as administrative assistant and was promoted to administrative manager in 1996 handling local distribution sales and overseeing the administrative and warehousing functions. She was subsequently promoted to Associate Director in 2004 and was responsible for local and export distribution sales, purchasing and cost control. In 2014, she was promoted to the role of COO, where she is responsible for the day to day operation, purchasing and inventory management. Ms Lee attained a GCE ‘O’ Level certificate in 1978.

Board of Directors



CHOW WEN KWAN MARCUS

Chow Wen Kwan Marcus is our Independent Director and was appointed to our Board on 3 June 2014. He is also the Chairman of our Nominating Committee. He is currently a partner of Bird & Bird ATMD LLP in Singapore. Mr Chow has more than 15 years of experience in legal practice and 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.



NG TIANG HWA

Ng Tiang Hwa is our Independent Director and was appointed to our Board on 3 June 2014. He is also the Chairman of our Remuneration Committee.

Mr Ng is currently the director of Eastern Growth International Holdings Pte. Ltd., a trading and investment services company which he founded jointly with his partners in 2004. He is also the executive director of TPK & Co. Pte. Ltd., an investment company and the director of Pawsibility Pte. Ltd., an animal assisted therapy counselling company.

Mr Ng was the Chief Financial Officer of Qualitek Singapore Pte Ltd and was responsible for financial management and corporate affairs from 2003 to 2004.

Between 2001 and 2002, he was the head of finance department in Singapore Land Authority where he was in charge of accounting, treasury tax and budgets. From 2000 to 2001, he was the financial controller of Image Transforms Pte Ltd and was responsible for financial management and corporate affairs. Between 1992 and 1999, he was the senior manager in The Polyolefin Company (Singapore) Pte. Ltd. where he was in charge of accounting, manufacturing costing, corporate finance, banking and treasury, taxation and audit.

Mr Ng is a member of the Institute of Singapore Chartered Accountants, a fellow member of the Chartered Institute of Management Accountants, United Kingdom and a member of the Singapore Institute of Directors. He graduated from the University of Singapore with a Bachelor's degree in Accountancy in 1976.



LEO PENG WEILE

Leo Peng Weile is the Executive Director of our Group. He was appointed to our Board on 3 October 2016 and is responsible for spearheading the Group's property management business.

Mr Peng has been the Managing Director of the Investment Banking department of Fu Hua Holdings Limited since February 2014. He has over thirteen years of experience in investment banking, direct investment, asset management, corporate advisory, financial restructuring advisory, and strategic planning, and has strong knowledge relating to the capital markets in China, Hong Kong, Singapore and Australia. He has served as the executive director of Forise International Limited since October 2015 and has been appointed by several companies as their external financial advisor, to provide strategic planning, financial structuring, listing and fund raising services during the past few years. He has been involved in a number of successful listings, pursuant to which he has successfully assisted various Chinese companies in their listing on the stock exchanges in Singapore, Hong Kong and Australia, and has a very good network and in-depth knowledge of capital markets, both on-shore and off-shore. He was previously with Deutsche Morgan Grenfell Securities Ltd and HL Bank Singapore, in which he assisted companies in their fund raising from the equity capital markets in Singapore.

Mr Peng holds a Masters degree in Finance from the National University of Ireland, Dublin; and a Diploma in Wealth Management from Wealth Management Institute of Singapore.

PENG FEI

Peng Fei is the Non-Executive Director of our Group. He was appointed to our Board on 3 October 2016.

Mr Peng has been the Executive President of Fu Hua Holdings Limited since January 2014 and served as executive director of Forise International Limited since August 2015. He is responsible for managing domestic and global investment business of Fu Hua Holdings Limited and its group companies, and had during his term assisted in the rapid growth of the group's businesses. He has also led projects on refocusing the company's business segments, resulting in higher shareholder values. He has over 20 years of investment management experience, corporate advisory, financial restructuring advisory, strategic planning with strong knowledge relating to capital markets in China, Hong Kong, Singapore and the United Kingdom.

Prior to joining Fu Hua Holdings Limited and the Company, he served as the President of Reignwood International Investment Ltd., where he was responsible for managing the group's global investment activities. He had successfully assisted the company in acquiring a property in London in 2011 and led the conceptualization and execution of the plans for the development of the property into a hotel and service apartment to enhance the returns of the property. Previously, he was the vice president of CHINALCO Overseas Holdings Ltd, and was responsible for CHINALCO (a Fortune 500 company)'s major overseas investment business.

Mr Peng holds an MSc in Finance and Investment with Distinction from Durham University, UK.



Key Management



NG HUI HSIEN

Ng Hui Hsien joined our Group as Financial Controller in September 2015 to oversee the Group's financial functions as well as human resource and information technology matters. Ms Ng has about ten years of experience in the audit profession. Prior to this position, she served as an Audit Manager in Nexia TS Public Accounting Corporation where she gained extensive experience in the field of business assurance involving various public-listed companies and small and medium enterprises in a wide range of industries. She was also involved in listing work as a Reporting Accountant of Initial Public Offering with Singapore Stock Exchange.

Ms Ng is a fellow with the Association of Chartered Certified Accountants, and a member of the Institute of Singapore Chartered Accountants.

SHERINA LOW YEEN MEI

Sherina Low Yeen Mei is our Finance and Administration Manager. She is responsible for daily accounting and human resource matters of our Group. Ms Low started her career working as accounts assistant for Evergreen Shipping (S) Pte Ltd, a company which is principally engaged in shipping business, from 2003 to 2005. She joined Geometra Worldwide Movers Pte Ltd which is principally engaged in logistic business in 2005 as accounts executive and was the accounts manager when she left in 2011.

Prior to joining our Group in 2012, Ms Low was on a six-month contract assignment with FIL SPA Intelligence Pte Ltd as an accountant. She graduated with a Bachelor of Science in Applied Accounting (Honours) from Oxford Brookes University in 2008.

TAY TWAN LEE

Tay Twan Lee is our Business Director where he is responsible for business development of our export and local sales departments. He started his career as sales staff in charge of selling automobile with Pinnacle Motors Pte Ltd from 2002 to 2005 and RTMT Motors Pte Ltd from 2005 to 2006.

Mr Tay joined our Group in 2007 as sales executive and was promoted to senior product consultant in 2012 and eventually to our Business Director in 2014. He graduated from Temasek Polytechnic in 2001 with a Diploma in Mechatronics.



Financial Highlights

FINANCIAL RESULTS	FY2016 \$'000	FY2015 \$'000	CHANGE	
			\$'000	%
Revenue				
Distribution Sales	9,291	11,292	(2,001)	-17.7%
Contract Sales	7,003	9,437	(2,434)	-25.8%
Total revenue	16,294	20,729	(4,435)	-21.4%
Cost of inventories	(9,814)	(13,219)	3,405	-25.8%
Employee compensation	(2,648)	(2,809)	161	-5.7%
Freight and transportation	(426)	(576)	150	-26.0%
Other operating expenses	(3,240)	(2,327)	(913)	39.2%
(Loss)/profit after tax	(418)	865	(1,283)	-148.3%
FINANCIAL POSITION	31 DEC 2016 \$'000	31 DEC 2015 \$'000	CHANGE	
			\$'000	%
Non-current assets	4,177	3,096	1,081	34.9%
Current assets	16,161	19,324	(3,163)	-16.4%
Total Assets	20,338	22,420	(2,082)	-9.3%
Current liabilities	3,959	5,338	(1,379)	-25.8%
Non-current liabilities	1	29	(28)	-96.6%
Total Liabilities	3,960	5,367	(1,407)	-26.2%
Net Assets	16,378	17,053	(675)	-4.0%
Share capital	6,365	6,365	-	0.0%
Retained earnings	10,013	10,688	(675)	-6.3%
Total Equity	16,378	17,053	(675)	-4.0%
CASH FLOW SUMMARY	FY2016 \$'000	FY2015 \$'000	CHANGE	
			\$'000	%
(Loss)/profit after tax	(418)	865	(1,283)	-148.3%
Net cash provided by operating activities	838	442	396	89.6%
Net cash used in investing activities	(1,135)	(1,274)	139	-10.9%
Net cash used in financing activities	(1,269)	(3,901)	2,632	-67.5%
Net decrease in cash and cash equivalents	(1,566)	(4,733)	3,167	-66.9%
Cash and cash equivalents at the end of the financial year	2,292	3,858	(1,566)	-40.6%

Operating *and* Financial Review



REVENUE

For the financial year ended 31 December 2016 ("FY2016"), the Group recorded revenue of \$16.3 million, a decrease of 21.4% as compared to \$20.7 million for the financial year ended 31 December 2015 ("FY2015"). The Group's total revenue is primarily derived from selling and installation of a wide range of carpets regionally. The decrease was mainly attributable to a slowdown in Singapore's private sector construction activities and uncertainty in the global economy which resulted in lower demand for carpets from distributors.

Regional Distribution Sales had decreased across all market with the exceptions of Indonesia which saw an increase of 19.5% compared to FY2015. The Indonesian market has been a bright spot in ASEAN, with a 5% growth in GDP. Distribution sales for Malaysia and Saudi Arabia reduced significantly by 50.0% and 51.4% respectively. The implementation of GST and weakening Malaysian Ringgit had adversely affected the export sales to Malaysia. Saudi Arabia was affected by falling crude oil prices and unrest in the country.

The Contract Sales decreased by 25.8% compared to FY2015 due to a slowdown in Singapore's private sector construction activities and continued economic uncertainties.

OTHER INCOME

The increase in other income mainly resulted from increase in rental income from investment property and sundry income. The investment property was leased to a non-related party under operating leases with effect from March 2016 for a period of one year with an option to renew for a further one year.

The increase in sundry income was attributable to Wage Credit received from Central Provident Fund Board and receipt of government grant in FY2016 which increased by \$22,000 and \$18,000 respectively compared to FY2015.

There was no change in finance income which relates to the interest earned from the fixed deposit placed with a financial institution.

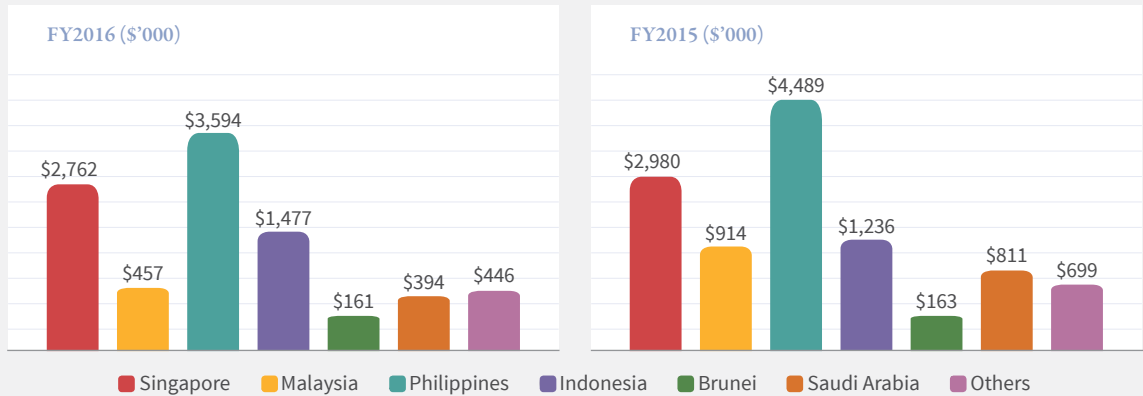
COSTS OF INVENTORIES

Costs of inventories decreased by \$3.4 million or 25.8% from \$13.2 million in FY2015 to \$9.8 million in FY2016. This was mainly due to lesser orders from Distribution and Contract Sales customer.

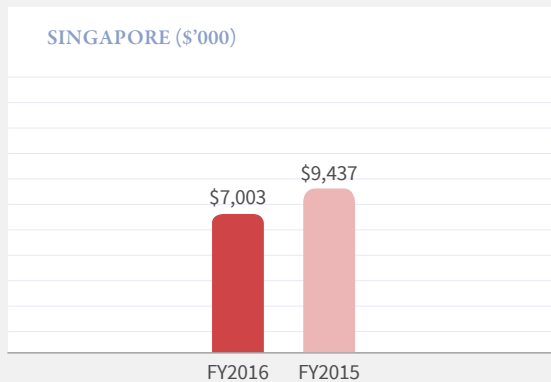


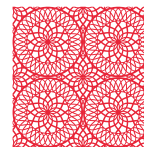


REVENUE IN GEOGRAPHICAL AREAS DISTRIBUTION SALES



CONTRACT SALES





Operating *and* Financial Review

NOTABLE PROJECTS

Customer	New Art Interior Pte Ltd
Project Location	Level 3 and Level 4 office space at Terminal 2, Singapore Changi Airport
Area	103,631 sq ft

Customer	DB & B Pte Ltd
Project Location	LGT Bank at Centennial Tower Level 29
Area	21,853 sq ft

Customer	Kuan Aik Hong Construction Pte Ltd
Project Location	Land Transport Authority Bedok Campus, 71 Chai Chee Street
Area	123,642 sq ft

Customer	Space Matrix Design Consultants Pte Ltd
Project Location	Symantec Singapore Suntec Tower 4 Level 11 to Level 14
Area	64,637 sq ft

Customer	Sunray Woodcraft Construction Pte Ltd
Project Location	Tampines Town Hub
Area	14,897 sq ft

Customer	Interspace Pte Ltd
Project Location	Mitsui & Co at Asia SQ Tower 2 #30/31
Area	47,132 sq ft

Customer	ID 21 Pte Ltd
Project Location	Prudential Service Office at Guocco Tower Level 19
Area	16,262 sq ft

Customer	Gennal Industries Pte Ltd
Project Location	Orchard Central at Level 4
Area	30,934 sq ft



EMPLOYEE COMPENSATION

Employee compensation of the Group decreased by 5.7% or \$0.2 million due to reduction in 13th month bonus or Annual Wage Supplement (“AWS”) and variable performance bonus as compared to FY2015.

FREIGHT AND TRANSPORTATION EXPENSE

There was a decrease in the freight and transportation expense by 26.0% or \$0.2 million mainly due to the reduction in sales.

OTHER OPERATING EXPENSE

The increase in other operating expense of approximately \$0.9 million or 39.2% was mainly due to the impairment loss on investment property of \$0.2 million and allowance for impairment of trade receivables of \$0.2 million to mark to market the carrying value of the Group’s assets; inventories write-off and inventories write-down of \$0.2 million and \$0.1 million respectively in line with the weak global market sentiment.

(LOSS)/ PROFIT AFTER TAX

(Loss)/profit after tax reduced by approximately \$1.3 million or 148.3% in FY2016 as compared to FY2015 mainly due to reduction in sales and higher other operating expenses.

FINANCIAL POSITION

As at 31 December 2016, the Group maintained a strong financial position. The Group had net assets of approximately \$16.4 million as compared to \$17.1 million as at 31 December 2015.

The Group’s current assets decreased by approximately \$3.2 million or 16.4% mainly due to the decrease in cash and bank balances of approximately \$1.2 million and decrease in trade and other receivables of \$2.1 million which was offset with the increased in inventories of \$0.1 million. The decrease in trade and other receivables was mainly due to an improvement in collection of receivables. Increase in inventories was due to purchase of new range of products from “Mohawk Group”.

The Group’s non-current assets increased by approximately \$1.1 million or 34.9% mainly due to additions made for the investment property (Skyline Residences), additions in investment in a joint venture, acquisition of motor vehicles and leasehold improvements during the year.

The decrease in current liabilities of approximately \$1.4 million or 25.8% was due to reduction in trade and other payables and borrowings (trust receipts) of approximately \$0.8 million and \$0.5 million respectively. The reductions were due to reduction in purchase.

CASH FLOW

Cash flows generated from operating activities of the Group for FY2016 amounted to \$0.8 million as compared to \$0.4 million in FY2015 representing an increase of \$0.4 million. This was mainly due to an improvement in collection of receivables offset with settlement of payables and additions of inventories for the financial year under review against the comparatives.

Net cash used in investing activities were mainly due to the progressive payment made for the Group’s investment property of \$0.5 million, acquisition of motor vehicles and leasehold improvements of \$0.7 million.

Net cash used in financing activities of approximately \$1.3 million was mainly due to net repayment of borrowings (trust receipts) of \$0.5 million, dividend paid to the equity shareholders of the company of \$0.3 million and changes in fixed deposit with maturity of more than three months of \$0.4 million.

Overall, the Group recorded a net cash decrease of approximately \$1.6 million as compared to net cash decrease of \$4.7 million in FY2015.



Corporate Information

BOARD OF DIRECTORS

Ho D'Orville Raymond
Independent Non-Executive Chairman

Ho Pei Yuen Rena
Executive Director and Chief Executive Officer

Ho Wan Jing Nellie
Executive Director and Deputy Chief Executive Officer

Lee Lay Choo
Executive Director and Chief Operating Officer

Peng Weile
Executive Director

Ng Tiang Hwa
Independent Director

Chow Wen Kwan Marcus
Independent Director

Peng Fei
Non-Executive Director

AUDIT COMMITTEE

Ho D'Orville Raymond
Chairman

Ng Tiang Hwa

Chow Wen Kwan Marcus

REMUNERATION COMMITTEE

Ng Tiang Hwa
Chairman

Ho D'Orville Raymond

Chow Wen Kwan Marcus

NOMINATING COMMITTEE

Chow Wen Kwan Marcus
Chairman

Ho D'Orville Raymond

Ho Pei Yuen Rena

COMPANY SECRETARY

Wee Woon Hong, LLB (Hons)

SHARE REGISTRAR

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

SPONSOR

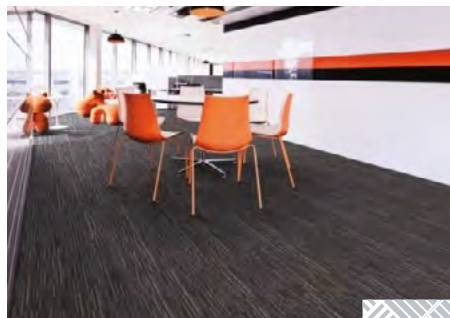
Hong Leong Finance Limited
16 Raffles Quay
#40-01A Hong Leong Building
Singapore 048581

AUDITOR

Nexia TS Public Accounting Corporation
100 Beach Road
#30-00 Shaw Tower
Singapore 189702
Director-in-charge: Philip Tan Jing Choon
(Appointed since the financial year ended
31 December 2014)

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

31 Jurong Port Road
South Wing #02-20
Jurong Logistics Hub
Singapore 619115



Corporate Governance Report

The Board of Directors (the “**Board**” or “**Directors**”) of SMJ International Holdings Ltd. (the “**Company**”) is committed to ensuring a high standard of corporate governance within the Company and its subsidiary corporations (the “**Group**”), as a fundamental part of its responsibilities to protect and enhance shareholders’ value and the financial performance of the Group.

This report describes the Group’s corporate governance practices and structures that were in place during the financial year ended 31 December 2016 (“**FY2016**”), with specific reference to the principles and guidelines of the Code of Corporate Governance (the “**Code**”) issued by the Monetary Authority of Singapore on 2 May 2012.

The Board confirms that the Group had generally adhered to all principles and guidelines set out in the Code which is divided into four main sections as described below:

- A) Board Matters
- B) Remuneration Matters
- C) Accountability and Audit
- D) Shareholders’ Rights and Responsibilities

A) BOARD MATTERS

Principle 1: The Board’s Conduct of Affairs

The Board’s primary role is to protect and enhance shareholders’ value.

The responsibilities of the Board include:

- Providing entrepreneurial leadership, set strategic direction and ensuring the overall corporate policies of the Group meet its objectives;
- Ensuring adequate risk management processes;
- Ensuring adequacy of internal controls and periodic reviews of the Group’s financial performance and compliance; and
- Monitoring the Board composition, processes and performance.

Corporate Governance Report

Matters which specifically require the Board's decision or approval are those involving:

- Corporate strategy and business plans;
- Investment and divestment proposals;
- Funding decisions of the Group;
- Nominations of directors for appointment to the Board and appointment of key personnel;
- Announcement of half-year and full-year results, the annual report and financial statements;
- Material acquisitions and disposal of assets;
- Corporate or financial restructuring;
- Share issuance;
- Dividends and other returns to shareholders;
- Directors' remuneration; and
- All matters of strategic importance.

The Board meets regularly on a half-yearly basis and ad-hoc meetings may be convened whenever deemed necessary to address any specific issue of significance that may arise. Important matters concerning the Group are also put to the Board for its decision by way of written resolutions. The Company's Constitution allows a Board meeting to be conducted by means of telephone conference or other methods of simultaneous communication by electronic or other means.

Corporate Governance Report

The Board is assisted by various Board committees, namely the Audit Committee (the “**AC**”), the Nominating Committee (the “**NC**”) and the Remuneration Committee (the “**RC**”), in carrying out and discharging its duties and responsibilities efficiently and effectively. The attendance of the Directors at meetings of the Board and Board committees during FY2016, as well as the frequency of such meetings, are disclosed below:

Name of Director	Board	AC	RC	NC
Number of meetings held in FY2016	2	2	1	1
Attendance				
Ho D’Orville Raymond	1*	1*	–	–
Ho Pei Yuen Rena	2	2 [#]	1 [#]	1
Ho Wan Jing Nellie	2	2 [#]	1 [#]	1 [#]
Lee Lay Choo	2	2 [#]	1 [#]	1 [#]
Peng Weile**	–	–	–	–
Ng Tiang Hwa	2	2	1*	1 [#]
Chow Wen Kwan Marcus	2	2	1	1*
Peng Fei**	–	–	–	–

* Chairman

By invitation

** Peng Weile and Peng Fei were appointed as Executive Director and Non-Executive Director of the Company, respectively, on 3 October 2016.

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 financial reporting standards are monitored closely by the management (consisting of the Executive Directors and key management personnel (who are not Directors or the CEO)). The Directors may also attend appropriate courses, conferences and seminars at the Company’s expenses.

Newly appointed Directors to the Board will undergo an orientation programme and will be provided with materials to help them familiarise themselves with the business and governance practices of the Company. During FY2016, Peng Weile and Peng Fei were appointed as Executive Director and Non-Executive Director of the Company, respectively, on 3 October 2016.

Corporate Governance Report

Principle 2: Board Composition and Guidance

The Board currently consists of eight members, three of whom are independent. As the Chairman of the Board is an Independent Director, this Board composition complies with the Code's guidelines that at least one-third of the Board should be made up of Independent Directors. The Directors are as follows:

Executive Directors

Ho Pei Yuen Rena	Executive Director and Chief Executive Officer ("CEO")
Ho Wan Jing Nellie	Executive Director and Deputy CEO
Lee Lay Choo	Executive Director and Chief Operating Officer
Peng Weile	Executive Director

Non-Executive Directors

Ho D'Orville Raymond	Independent Non-Executive Chairman and Chairman of AC
Ng Tiang Hwa	Independent Director and Chairman of RC
Chow Wen Kwan Marcus	Independent Director and Chairman of NC
Peng Fei	Non-Executive Director

The NC adopts the definition in the Code as to what constitutes an Independent Director. The Board considers an "independent" Director as one who has no relationship with the Company, its related companies, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent judgement of the conduct of the Group's affairs.

The NC has conducted an annual review of the independence of the Independent Directors, namely Ho D'Orville Raymond, Ng Tiang Hwa, and Chow Wen Kwan Marcus based on the Code's guidelines, and has ascertained that they are independent.

The Board through the NC, taking into consideration the scope and nature of the Group's operations, is of the view that the current size and structure are appropriate for effective decision making and given that the Chairman of the Board is an Independent Director and at least one-third of the Board is made up of Independent Directors, there exists a strong independent element to ensure that objective judgement is exercised on corporate affairs.

Generally, each Director has been appointed on the strength of his calibre, experience, grasp of corporate strategy and potential to contribute to the Group's business. As each of the Director brings valuable insights from different perspectives vital to the strategic interest of the Group, the NC considers that the Directors possess the necessary competencies to provide management with a diverse and objective perspective on issues so as to lead and govern the Group effectively.

There are no Directors who have served on the Board beyond nine years from the date of his appointment.

Corporate Governance Report

Principle 3: Chairman and CEO

The Company adopts a dual leadership structure whereby the positions of Chairman of the Board and CEO are separate.

The Independent Non-Executive Chairman of the Board, Ho D'Orville Raymond, is assisted by the three Board committees and the internal auditor who reports to the AC in ensuring compliance with the Group's guidelines on corporate governance.

The CEO, Ho Pei Yuen Rena, is responsible for the overall management, operations and charting the corporate and strategic direction, including the sales, marketing and procurement strategies of the Group.

The Independent Directors provide unbiased and independent view, advice and judgment to safeguard the interests of not only the Group but also the stakeholders, employees, customers and suppliers. Furthermore, the Board is of the view that with the functions of the three Board committees, there are adequate safeguards in place to prevent an unbalanced concentration of power, authority and decision making in a single individual.

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. The Independent Directors may meet regularly on their own as warranted without the presence of the management.

Principle 4: Board Membership

The NC consists of three members, namely Chow Wen Kwan Marcus, Ho D'Orville Raymond and Ho Pei Yuen Rena, majority of whom are independent. The Chairman of the NC is Chow Wen Kwan Marcus. The NC is guided by written terms of reference that describe the responsibilities of its members.

The NC is responsible for:

- (a) re-nomination of the Director having regard to each Director's contribution and performance;
- (b) determining annually whether or not a Director is independent;
- (c) deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director; and
- (d) assessing the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

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

Corporate Governance Report

Generally, the NC does not appoint new Directors, but nominates them to the Board which retains the final discretion in appointing such new Directors. In the search, nomination and selection process for new Directors, the NC identifies the key attributes that an incoming Director should have, based on the mix of the attributes of the existing Board and the requirements of the Group. Thereafter, the NC taps on the resources of the existing Directors' personal contacts and recommendations of potential candidates for the shortlisting process. If candidates shortlisted are not suitable, executive recruitment agencies are appointed to assist in the search process. Interviews are set up with potential candidates for NC members to assess them, before a decision is reached.

Under the Company's Constitution, all the Directors are required to submit themselves for re-nomination and re-election every three years. Directors who retire are eligible to offer themselves for re-election. In addition, Directors who are appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next Annual General Meeting ("AGM") of the Company, and shall be eligible for re-election.

The NC recommended that the following Directors who are retiring at the forthcoming AGM be nominated for re-election. The NC, in considering the re-election of an incumbent Director, evaluates such Director's contributions in terms of experience, business perspective and attendance at meetings of the Board and/or Board committees and pro-activeness of participation in meetings. The retiring Directors have offered themselves for re-election and the Board had accepted the recommendations of the NC.

<u>Name</u>	<u>Retired under</u>
Ng Tiang Hwa	Regulation 107 of the Company's Constitution
Ho Wan Jing Nellie	Regulation 107 of the Company's Constitution
Peng Weile	Regulation 117 of the Company's Constitution
Peng Fei	Regulation 117 of the Company's Constitution

- Ng Tiang Hwa will, upon re-election as a Director, remain as the chairman of the RC and a member of the AC, and will be considered independent for the purposes of Rule 704(7) of Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited (the "**Catalist Rules**").

Having regard to the effectiveness of the Board, Directors' attendance and deliberations at meetings of the Board and Board committees and the time spent on the Company's affairs, the NC considers that the multiple board representations held presently by some Directors do not impede their respective performance in carrying out his duties towards the Company. Therefore, the NC and the Board do not propose to set the maximum number of listed company board representations which Directors may hold until such need arises.

Corporate Governance Report

Key information regarding the Directors is set out below:

Name of Director	Date of first appointment	Date of last re-election	Directorships in other listed companies	
			Present	Past (Last three years)
Ho D'Orville Raymond	3 June 2014	8 April 2016	Nil	1. Infinio Group Limited
Ho Pei Yuen Rena	31 December 2013	8 April 2016	Nil	Nil
Ho Wan Jing Nellie	31 December 2013	17 April 2015	Nil	Nil
Lee Lay Choo	31 December 2013	17 April 2015	Nil	Nil
Peng Weile	3 October 2016	–	1. Forise International Limited	Nil
Ng Tiang Hwa	3 June 2014	17 April 2015	Nil	Nil
Chow Wen Kwan Marcus	3 June 2014	17 April 2015	1. Hafary Holdings Limited 2. Katrina Group Ltd. 3. Versalink Holdings Limited	1. Ley Choon Group Holdings Limited
Peng Fei	3 October 2016	–	1. Forise International Limited	Nil

The professional and academic qualifications and the information on shareholdings in the Company held by each Director are set out in the “Board of Directors” and “Directors’ Statement” sections of this annual report respectively.

Principle 5: Board Performance

The Board has implemented a process to be carried out by the NC for assessing the effectiveness of the Board as a whole and the Board committees and for assessing the contribution from each Director to the effectiveness of the Board. Assessment checklists which include evaluation factors such as Board size and composition, Board process, Board accountability, corporate strategy and planning, risk management, training and recruitment, compensation and standards of conduct, are disseminated to each Director for completion and the assessment results are discussed at the NC meeting. The Board has met its performance objectives for FY2016.

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

Corporate Governance Report

Principle 6: Access to Information

The Board recognises the importance of unhindered flow of information for the Board to discharge its duties effectively. The management regularly furnish the Board and where appropriate, each Director, with information about the Group as well as the relevant background information or explanatory information relating to the business to be discussed at Board meetings. All Directors are also provided with the contact details of the management and company secretary to facilitate separate and independent access.

The company secretary and/or her representatives attend Board and Board committee meetings. The company secretary, together with the management, are responsible for ensuring that appropriate procedures are followed and the requirements of the Companies Act, Chapter 50 (the “**Companies Act**”) and the provisions in the Catalist Rules are complied with. Directors have separate and independent access to the company secretary. The appointment and the removal of the company secretary is a matter for the Board as a whole. Each Director has the right to seek independent legal and other professional advice, at the Company’s expenses, concerning any aspect of the Group’s operations or undertakings in order to fulfil his duties and responsibilities as a Director.

B) REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

The RC consists entirely of Independent Directors, namely Ng Tiang Hwa, Ho D’Orville Raymond and Chow Wen Kwan Marcus. The Chairman of the RC is Ng Tiang Hwa. The RC is guided by written terms of reference that describe the responsibilities of its members.

The RC will recommend to the Board a framework of remuneration for the Directors and key management personnel (who are not Directors or the CEO), and determine specific remuneration packages for each Executive Director and key management personnel (who are not Directors or the CEO).

The recommendations of the RC are submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to Directors’ fees, salaries, allowances, bonuses, options and benefits-in-kind (if any) shall be covered by the RC. The remuneration of employees who are related to the Directors or substantial shareholders of the Company will also be reviewed annually by the RC to ensure that their remuneration packages are in line with the Group’s staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. The RC has full authority to obtain any external professional advice on matters relating to remuneration as and when the need arises. Each member of the RC shall abstain from voting on any resolutions in respect of his remuneration package.

Corporate Governance Report

Principle 8: Level and Mix of Remuneration

The Company has a remuneration policy for its Executive Directors and key management personnel (who are not Directors or the CEO) which consists of a fixed component and a variable component. The fixed component is in the form of a base salary and/or fixed bonus, and the variable component is in the form of a variable bonus. The variable bonus takes into account the performance of the Group and the performance of the individual Executive Directors and key management personnel (who are not Directors or the CEO), as well as the Singapore employment market rates. The Company does not have any employee share scheme or other long-term employee incentive scheme.

All Independent Directors have no service agreements with the Company and do not receive any remuneration from the Company. They are paid fixed Directors' fees, which are determined by the Board based on contribution, effort, time spent and responsibilities of the Independent Directors. The directors' fees are subject to approval by shareholders of the Company at each AGM.

Service agreements

The Company had entered into separate service agreements (the “**Service Agreements**”) with the Executive Directors, namely Ho Pei Yuen Rena, Ho Wan Jing Nellie, Lee Lay Choo and Peng Weile. The Service Agreements for Ho Pei Yuen Rena, Ho Wan Jing Nellie, Lee Lay Choo are valid for an initial period of three years from 30 June 2014 and the Service Agreement for Peng Weile is valid for an initial period of three years from 3 October 2016. Upon the expiry of the initial period of three years, the employment of the Executive Directors shall be automatically renewed for a period of two years (and thereafter automatically renewed every two years) on such terms and conditions as the parties may agree. During the initial period of three years, either party may terminate the Service Agreement at any time by giving to the other party not less than six months' notice in writing, or in lieu of notice, payment of an amount equivalent to six months' salary based on the Executive Director's last drawn monthly salary. The Group may also terminate the employment of any of the Executive Directors at any time without notice or payment in lieu of notice under the following circumstances:

- (i) if the Executive Director is guilty of any gross default or grave misconduct in connection with or affecting the business of the Group;
- (ii) in the event of any serious or repeated breach or non-observance by the Executive Director of any of the stipulations contained in the Service Agreements;
- (iii) if the Executive Director becomes bankrupt or makes any composition or enters into any deed of arrangement with his creditors;
- (iv) if the Executive Director shall become of unsound mind; or
- (v) if the Executive Director commits any act of criminal breach of trust or dishonesty.

Corporate Governance Report

The Executive Directors are entitled to an annual fixed bonus of one month of their respective last drawn salary. They are also entitled to receive an annual performance bonus, the amount of which is to be determined in the absolute discretion of the RC. The Group will pay all reasonable travelling, hotel and other expenses incurred by the Executive Directors in connection with its business. In addition, the Group shall reimburse all reasonable medical expenses of the Executive Directors in accordance with its personnel policy.

Under the Service Agreements, the salary of each Executive Director is subject to review by the RC after the financial statements of the Group for the immediate preceding financial year have been audited. The Executive Directors shall abstain from voting in respect of any resolution or decision to be made by the Board in relation to the terms and renewal of their Service Agreements.

Save as disclosed, there are no existing or proposed service agreements between the Company and any of its Directors. There are no existing or proposed service agreements entered or to be entered into by the Directors with the Group which provide for benefits upon termination of employment.

Principle 9: Disclosure of Remuneration

A breakdown, showing the level and mix of each Director's remuneration for FY2016 is as follows:

Remuneration band and name of Director Up to \$250,000	Director's fee (%)	Salary, CPF and allowance (%)	Performance related bonus (%)	Total (%)
Ho D'Orville Raymond	100	–	–	100
Ho Pei Yuen Rena	–	96.3	3.7	100
Ho Wan Jing Nellie	–	96.3	3.7	100
Lee Lay Choo	–	96.3	3.7	100
Peng Weile*	–	93.4	6.6	100
Ng Tiang Hwa	100	–	–	100
Chow Wen Kwan Marcus	100	–	–	100
Peng Fei*	100 [#]	–	–	100

* Peng Weile and Peng Fei were appointed as Executive Director and Non-Executive Director of the Company, respectively, on 3 October 2016.

[#] Subject to the approval of shareholders of the Company at the forthcoming AGM.

Corporate Governance Report

A breakdown, showing the level and mix of each key management personnel's (who are not Directors or the CEO) remuneration for FY2016 is as follows:

Remuneration band and name of key management personnel (who are not Directors or the CEO)[#]	Salary, CPF and allowance (%)	Performance related bonus (%)	Total (%)
\$100,000 to below \$150,000			
Tay Twan Lee	96.5	3.5	100
Up to \$250,000	(%)	(%)	(%)
Ng Hui Hsien	96.5	3.5	100
Sherina Low Yeen Mei	96.6	3.4	100

[#] There were only three key management personnel (who are not Directors or the CEO) during FY2016.

Given the general sensitivity and confidentiality of remuneration matters, the Company is not disclosing the remuneration of each Director and key management personnel (who are not Directors or the CEO). However, the Company adopts the disclosure of remuneration in bands of \$250,000 (save for a key management personnel (who are not Directors or the CEO) who is an immediate family member of a Director) which would provide a good overview and is informative of the remuneration of each Director and key management personnel (who are not Directors or the CEO).

The aggregate total remuneration paid to or accrued to the key management personnel (who are not Directors or the CEO) amounted to \$306,000 for FY2016.

The Board is of the opinion that the information as disclosed above would be sufficient for shareholders to have an adequate appreciation of the Group's compensation policies and practices and therefore does not intend to issue a separate remuneration report, the contents of which would be largely similar.

The review of the remuneration of the Executive Directors and key management personnel (who are not Directors or the CEO) by the RC takes into consideration the performance and contributions of the staff to the Group as well as the financial performance and commercial needs of the Group and has ensured that the Executive Directors and key management personnel (who are not Directors or the CEO) are adequately but not excessively remunerated.

The Company does not have any employee share scheme or other long-term employee incentive scheme.

Save that (i) Ho Pei Yuen Rena and Ho Wan Jing Nellie are siblings and daughters of Lui Oi Kheng, the substantial shareholder of the Company, and (ii) Tay Twan Lee is the spouse of Ho Wan Jing Nellie there is no employee of the Group who is an immediate family member of the Directors or CEO.

Corporate Governance Report

C) ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Board is accountable to the shareholders and is mindful of its obligations to furnish timely information and to ensure full disclosure of material information to shareholders in compliance with the legislative and statutory requirements and requirements of the Catalist Rules.

Prior to the release of half-yearly and full year results to the public, the Executive Directors will present the Group's performance together with explanatory details of its operations to the AC, which will review and recommend the same to the Board for approval and authorisation for the release of the results.

The Board ensures that the management maintains a sound system of internal controls to safeguard the shareholders' interest and the Group's assets.

The management provides all members of the Board with management accounts of the Company and its subsidiary corporations on a monthly basis for understanding of the Group's performance, financial position and prospects.

Principle 11: Risk Management and Internal Controls

The Company did not set up a Risk Management Committee as the management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The management reviews significant control policies and procedures and highlights the significant matters to the Board and the AC.

The Board is responsible for the overall internal control framework and is fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interest and the Group's assets.

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 Group's internal control system.

The Board, under the AC's recommendation, selected and appointed Wensen Consulting Asia (S) Pte Ltd as the internal auditor of the Group to review, recommend and carry out subsequent follow-up review of the Group's internal control system. 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.

Corporate Governance Report

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

- (a) the financial records have been properly maintained and the financial statements for FY2016 give a true and fair view of the Group's operations and finances; and
- (b) the Group has put in place and will continue to maintain a reasonably adequate and effective system of risk management and internal controls.

Based on the internal controls established and maintained by the Group, work performed by the internal auditor, internal control recommendation reported by the external auditor during the course of fulfilling its duties as statutory auditor and reviews performed by the management, the Board with the concurrence of the AC, is of the opinion that the risk management and internal control system in place are adequate and effective in addressing the financial, operational, compliance and information technology risks of the Group as at 31 December 2016.

Principle 12: Audit Committee

The AC consists entirely of Independent Directors, namely Ho D'Orville Raymond, Ng Tiang Hwa and Chow Wen Kwan Marcus. The Chairman of the AC is Ho D'Orville Raymond. The AC has written terms of reference clearly setting out its authority and duties.

At least two members, including the Chairman of the AC have accounting and related financial management expertise. The Board is of the view that the AC has the necessary experience and expertise required to discharge its duties.

The AC will assist the Board in discharging its responsibility to safeguard the assets of the Group, maintain adequate accounting records and develop and maintain effective system of internal controls, with the overall objective of ensuring that the management creates and maintains an effective control environment in the Group.

The AC will provide a channel of communication between the Board, the management and the external auditor on matters relating to audit.

The AC shall meet half-yearly and as and when the need arises, to perform, *inter alia*, the following functions:

- (a) review the audit plan of the internal auditor, and internal auditor's review and evaluation of the Group's system of internal controls;
- (b) review the audit plan of the external auditor, including review the annual consolidated financial statements and the external auditor's report on those financial statements, and discuss any significant adjustments, major risk areas, changes in accounting policies, compliance with Financial Reporting Standards in Singapore, concerns and issues arising from its audits including any matters which the external auditor may wish to discuss in the absence of management, where necessary, before submission to the Board for approval;

Corporate Governance Report

- (c) review the half-yearly consolidated financial statements comprising the statement of comprehensive income and the balance sheets and such other information required by the Catalist Rules, before submission to the Board for approval;
- (d) review and discuss with the external and internal auditors, any suspected fraud, irregularity or infringement of any relevant laws, rules and regulations, which has or is likely to have a material impact on the Group's operating results or financial position and the management's response;
- (e) review the co-operation given by the management to the external auditor;
- (f) consider the appointment or re-appointment of the external auditor;
- (g) review and ratify any interested person transactions falling within the scope of Chapter 9 of the Catalist Rules;
- (h) review potential conflicts of interests (if any);
- (i) review the procedures by which employees of the Group may, in confidence, report to the Chairman of the AC, possible improprieties in matters of financial reporting or other matters and ensure that there are arrangements in place for independent investigation and follow-up actions thereto;
- (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 the AC; and
- (k) undertake generally such other functions and duties as may be required by law or the Catalist Rules, and by such amendments made thereto from time to time.

The AC had met with the internal and external auditors, without the presence of the management, to review the adequacy of audit arrangement with emphasis on the scope and quality of their audit, the independence, objectivity and observations of the auditors.

The AC confirms that it has undertaken a review of all non-audit services provided by the external auditor and that such non-audit services would not, in the AC's opinion, affect the independence of the external auditor. In the AC's opinion, the external auditor, Nexia TS Public Accounting Corporation is suitable for re-appointment and it has accordingly recommended to the Board that Nexia TS Public Accounting Corporation be nominated for re-appointment as auditor of the Company at the forthcoming AGM.

The AC constantly bears in mind the need to maintain a balance between the independence and objectivity of the external auditor and the work carried out by the external auditor based on value for money consideration. During FY2016, the aggregate amount of fees paid or payable to the external auditor for the audit and non-audit services amounted to \$60,000 and \$5,500, respectively.

Corporate Governance Report

The Group is in compliance with Rules 712 and 715 of the Catalist Rules.

The Group is committed to a high standard of ethical conduct and adopts a zero tolerance approach to fraud. The Group has a whistle-blowing policy in place which encourages the reporting of mainly matters of fraud, corruption or dishonest and unethical practices. The whistle-blowing policy has been communicated to all staff.

The Group undertakes to investigate complaints or suspected fraud and unethical behaviour in an objective manner and has put in place, with the AC's endorsement, arrangement by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective for such arrangements is to ensure independent investigation of matters raised and allow appropriate actions to be taken. All such concerns are to be raised in confidentiality directly to the Chairman of the Board and AC.

It is the Company's practice for the external auditor to present to the AC its audit plan and with updates relating to any changes in accounting standards impacting the financial statements of the Group. During FY2016, the changes in accounting standards did not have any material impact on the Group's financial statements.

Principle 13: Internal Audit

The AC is aware of the need to establish a system of internal controls within the Group to safeguard the shareholders' interests and the Group's assets, and to manage risks. The system is intended to provide reasonable but not absolute assurance against material misstatements or loss, and to safeguard assets and ensure maintenance of proper accounting records, reliability of financial information, compliance with appropriate legislation, regulation and best practices, and the identification and containment of business risks.

The size of the operations of the Group does not warrant the Group having an in-house internal audit function at this juncture. The Company has therefore appointed Wensen Consulting Asia (S) Pte Ltd, an external risk advisory consultancy firm, to undertake the functions of an internal auditor for the Group. The internal auditor reports directly to the AC and administratively to the Executive Directors.

The AC approves the engagement, removal, evaluation and compensation of the internal auditor and reviews the activities of the internal auditor on a regular basis, including overseeing and monitoring the implementation of the improvements required on internal control weaknesses identified.

Corporate Governance Report

D) SHAREHOLDERS' RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholders' Rights

The Group's corporate governance practices promote the fair and equitable treatment of all shareholders. To facilitate shareholders' ownership rights, the Group ensures that all material information is disclosed on a comprehensive, accurate and timely basis via SGXNET. The Group recognises that the release of timely and relevant information is central to good corporate governance and enables shareholders to make informed decisions in respect of their investments in the Company.

All shareholders are entitled to attend the AGM and are afforded the opportunity to participate effectively at the AGM. The Constitution of the Company allows a shareholder to appoint up to two proxies to attend and vote in the shareholder's place at the AGM.

Principle 15: Communication with Shareholders

The Company is committed to maintaining and improving its level of corporate transparency of financial results and other pertinent information. In line with the continuous disclosure obligations of the Company pursuant to the Catalist Rules and the Companies Act, it is the Board's policy to ensure that all shareholders are informed on a timely basis of every significant development that has an impact on the Group. Such information is disclosed in an accurate and comprehensive manner through SGXNET.

The Company does not practise selective disclosure. Results and annual reports are announced or issued within the mandatory period.

The Company conducts its investor relations on the following principles:

- (a) Information deemed to be price-sensitive is disseminated without delay via announcements on SGXNET;
- (b) Endeavour to provide comprehensive information in financial results announcements to help shareholders and potential investors make informed decisions; and
- (c) Operate an open policy with regard to investors' enquiries.

The Company does not have a fixed dividend policy. The form, frequency and amount of dividend will depend on the Company's earnings, general financial condition, results of operations, capital requirement, cash flow, general business condition, development plans and other factors as the Directors may deem appropriate. No dividend was paid or proposed for FY2016 as the Board feels it is prudent to retain cash resources so that the Company has the flexibility to execute its business plans effectively.

Corporate Governance Report

Principle 16: Conduct of Shareholder's Meetings

All the shareholders of the Company will receive the Company's annual report and notice of AGM. At each AGM, shareholders will be given the opportunity and time to air their views and ask Directors or the management questions regarding the Company.

The Chairman of each Board committee is required to be present to address questions at the AGM. The external auditor will also be present at such meeting to assist the Directors to address shareholders' queries, if necessary.

The Constitution of the Company allows any shareholder of the Company, if he or she is unable to attend the meeting, to appoint not more than two proxies to attend and vote on his or her behalf at the meeting through proxy forms sent in advance.

ADDITIONAL INFORMATION

Dealing in securities

The Company has devised and adopted policies in line with the requirements of the Catalist Rules on dealings in the Company's securities.

The Company and its officers are prohibited from dealing in the Company's shares on short-term consideration or at any time when they are in possession of unpublished price-sensitive information. They are also not allowed to deal in shares of the Company during the period commencing one month before the date of announcement of the Company's half year and full year financial results, and ending on the date of the announcement of the relevant results.

In addition, the Directors and key management personnel (who are not Directors or the CEO) are expected to observe insider trading laws at all times when dealing in securities within the permitted trading period.

Interested Person Transactions

The Group has adopted an internal policy in respect of any transactions with interested persons and requires all such transactions, if any, to be at agreed and normal commercial terms, and not prejudicial to the interests of the Company and its non-controlling shareholders, and to be reviewed by the AC to ensure compliance with the requirements of the Catalist Rules on interested person transactions.

If the Group enters into an interested person transaction and a potential conflict of interest arises, the Director concerned shall abstain from any discussions and also refrain from exercising any influence over other members of the Board.

The Company did not enter into interested person transactions which are required for disclosure pursuant to Rule 1204(17) of the Catalist Rules during FY2016.

Corporate Governance Report

Non-Sponsor Fees

With reference to Rule 1204(21) of the Catalist Rules, there were no non-sponsor fees paid to the Sponsor, Hong Leong Finance Limited for FY2016.

Material Contracts

There were no material contracts of the Company and its subsidiary corporations involving the interests of the CEO or any Director or controlling shareholder of the Company, either still subsisting at the end of FY2016 or if not then subsisting, which were entered into since the end of the previous financial year.

Use of IPO Proceeds

The Group raised net proceeds of approximately \$2.4 million from its initial public offering (“IPO”). As at 27 February 2017, such proceeds had been utilised in accordance with the intended purposes as follows:

Intended use of net proceeds	Amount allocated (\$'000)	Amount utilised (\$'000)	Balance (\$'000)
Business expansion through acquisitions, joint ventures and/or strategic alliances	1,500	-	1,500
Improving inventory management system and logistics support ⁽¹⁾	340	(308)	32
Marketing and business development	250	(87)	163
General working capital ⁽²⁾	329	(329)	-
Total	2,419	(724)	1,695

Notes:

- Out of \$340,000 allocated for improving inventory management system and logistics support, \$112,774 has been utilised to purchase a new delivery truck, \$38,800 has been utilised to purchase a new forklift and \$155,991 has been utilised to purchase SAP inventory cum accounting system.
- The breakdown of the use of the IPO proceeds on general working capital is as follows:

	\$
Professional fees	182,765
Directors' fees	74,999
Compliance/Listing fees	6,873
Administrative expenses	27,497
Other operating expenses	36,866
Total	329,000

Directors' Statement

The directors present their statement to the members together with the audited financial statements of SMJ International Holdings Ltd. (the "Company") and its subsidiary corporations ("the Group") for the financial year ended 31 December 2016 and the balance sheet of the Company as at 31 December 2016.

In the opinion of the directors,

- (i) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 44 to 92 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are as follows:

Ho D'Orville Raymond

Ho Pei Yuen Rena

Ho Wan Jing Nellie

Lee Lay Choo

Ng Tiang Hwa

Chow Wen Kwan Marcus

Peng Weile (appointed on 3 October 2016)

Peng Fei (appointed on 3 October 2016)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the 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.

Directors' Statement

Directors' interests in shares or debentures

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director		Holdings in which director is deemed to have an interest	
	At 31.12.2016	At 1.1.2016	At 31.12.2016	At 1.1.2016
Company				
<u>(No. of ordinary shares)</u>				
Ho Pei Yuen Rena	12,800,000	12,800,000	–	–
Ho Wan Jing Nellie	12,800,000	12,800,000	–	–
Lee Lay Choo	3,200,000	3,200,000	–	–

The directors' interests in the ordinary shares of the Company as at 21 January 2017 were the same as those as at 31 December 2016.

Share Options

No options were granted during the financial year to subscribe for unissued shares of the Company or its subsidiary corporations.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiary corporations.

There were no unissued shares of the Company under option at the end of the financial year.

Audit Committee

The Audit Committee (the "AC") comprises three members, all of whom are non-executive directors.

The members of the Audit Committee at the end of the financial year were as follows:

Ho D'Orville Raymond	Independent director, Chairman
Ng Tiang Hwa	Independent director
Chow Wen Kwan Marcus	Independent director

The AC carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual and the Code of Corporate Governance.

Directors' Statement

Audit Committee (continued)

The AC has met half-yearly and as and when the need arises, to perform, inter alia, the following functions:

- (a) review the audit plan of the internal auditor, and internal auditor's review and evaluation of the Group's system of internal controls;
- (b) review the audit plan of the external auditor, including review the annual consolidated financial statements and the external auditor's report on those financial statements, and discuss any significant adjustments, major risk areas, changes in accounting policies, compliance with Singapore Financial Reporting Standards, concerns and issues arising from its audits including any matters which the external auditor may wish to discuss in the absence of management, where necessary, before submission to the Board for approval;
- (c) review the half-yearly consolidated financial statements comprising the statement of comprehensive income and the balance sheets and such other information required by the SGX-ST Catalist Rules, before submission to the Board for approval;
- (d) review and discuss with our external and internal auditors (if any), any suspected fraud, irregularity or infringement of any relevant laws, rules and regulations, which has or is likely to have a material impact on the Group's operating results or financial position and the management's response;
- (e) review the co-operation given by our management to the external auditors;
- (f) consider the appointment or re-appointment of the external auditor;
- (g) review and ratify any interested person transactions falling within the scope of Chapter 9 of the SGX-ST Catalist Rules;
- (h) review potential conflicts of interests (if any);
- (i) review the procedures by which employees of the Group may, in confidence, report to the Chairman of the AC, possible improprieties in matters of financial reporting or other matters and ensured that there are arrangements in place for independent investigation and follow-up actions thereto;
- (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 the AC; and
- (k) undertake generally such other functions and duties as may be required by law or the SGX-ST Catalist Rules, and by such amendments made thereto from time to time.

Directors' Statement

Audit Committee (continued)

The AC has recommended to the Board that the independent auditor, Nexia TS Public Accounting Corporation, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

Independent Auditor

The independent auditor, Nexia TS Public Accounting Corporation, has expressed its willingness to accept re-appointment.

On behalf of the directors

Ho Pei Yuen Rena
Director

Lee Lay Choo
Director

13 March 2017

Independent Auditor's Report

to the members of SMJ International Holdings Ltd.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of SMJ International Holdings Ltd. (the "Company") and its subsidiary corporations (the "Group"), which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 44 to 92.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of trade receivables

(Refer to Notes 3.1(a) and 13 to the financial statements)

Risk:

The Group has local and overseas customers representing total trade receivables of \$5.1 million which is a significant component to the financial statements. Certain customers are experiencing a higher average collection period as compared to other customers, resulting in a greater inherent exposure to non-collectability and increased level of judgement involved in estimating the recoverability of trade receivables.

Independent Auditor's Report

to the members of SMJ International Holdings Ltd.

Key Audit Matters (continued)

Impairment of trade receivables (continued)

(Refer to Notes 3.1(a) and 13 to the financial statements) (continued)

Our response:

In obtaining sufficient audit evidence, we:

- Evaluated the reasonableness of the basis and assumptions used in management's assessment;
- Challenged management's view of credit risk and recoverability by taking into consideration historical trends, actual and future expected cash flows for long outstanding trade receivables; and
- Assessed the adequacy of impairment related disclosures in the financial statements.

Our findings:

The approach in deriving the assumptions to impairment is reasonable based on supportable information available, and that management had applied its knowledge of the business in determining the impairment by taking into consideration historical trends, actual and future expected cash flows. Disclosures in the financial statements are appropriate.

Net realisable value of inventories

(Refer to Notes 3.1(b) and 14 to the financial statements)

Risk:

The Group trades and distributes a wide array of carpet tiles and is subject to changing consumer demands due to product design, trends and market conditions. Hence, increased the level of judgement involved in estimating the net realisable value ("NRV"). The NRV of inventory as at 31 December 2016 is \$4.6 million and is significant in relation to the financial statements. Judgement is required to assess the appropriate level of write down which may ultimately be sold below cost as a result of a reduction in consumer demand. Such judgements include management's expectations for future sales and inventory management which may materially affect the carrying amount of inventories as at financial year end.

Our response:

In obtaining sufficient audit evidence we:

- Critically assessed the basis for the inventory write down;
- Ensured the consistency of write down is in line with corporate policy;
- Assessed the ageing of inventory, inventory levels and estimated selling prices;
- Evaluated assumptions made by management to determine the NRV of inventory complies with relevant accounting standards; and
- Assessed the adequacy of write down related disclosures in the financial statements.

Independent Auditor's Report

to the members of SMJ International Holdings Ltd.

Key Audit Matters (continued)

Net realisable value of inventories (continued)

(Refer to Notes 3.1(b) and 14 to the financial statements) (continued)

Our findings:

Inventory write down is reasonable and in accordance with the Group policy and relevant accounting standard. Disclosures in the financial statements are appropriate.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and Directors for the Financial Statements

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

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

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

Independent Auditor's Report

to the members of SMJ International Holdings Ltd.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

to the members of SMJ International Holdings Ltd.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement director on the audit resulting in this independent auditor's report is Philip Tan Jing Choon.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants

Singapore
13 March 2017

Consolidated Statement of Comprehensive Income

For the Financial Year Ended 31 December 2016

	Note	2016 \$'000	2015 \$'000
Revenue	4	16,294	20,729
Other income	5	256	155
Other gains and losses	6	177	84
Expenses			
– Cost of inventories		(9,814)	(13,219)
– Depreciation		(269)	(101)
– Employee compensation	7	(2,648)	(2,809)
– Finance	8	(76)	(64)
– Freight and transportation		(426)	(576)
– Installation		(655)	(886)
– Other	9	(3,240)	(2,327)
Total expenses		(17,128)	(19,982)
(Loss)/profit before income tax		(401)	986
Income tax expense	10	(17)	(121)
Total comprehensive (loss)/income attributable to equity holders of the company, representing net (loss)/profit		(418)	865
(Loss)/earnings per share for (loss)/profit attributable to equity holders of the Company (cents per share)			
– Basic and diluted	11	(0.54)	1.11

The accompanying notes form an integral part of these financial statements

Balance Sheets

As at 31 December 2016

		Group		Company	
	Note	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
ASSETS					
Current assets					
Cash and bank balances	12	6,192	7,358	1,462	2,862
Trade and other receivables	13	5,400	7,521	1,177	71
Inventories	14	4,569	4,445	-	-
		16,161	19,324	2,639	2,933
Non-current assets					
Investment in joint venture	15	359	-	-	-
Investments in subsidiary corporations	16	-	-	3,500	3,500
Investment property	17	3,000	2,801	-	-
Property, plant and equipment	18	818	295	-	-
		4,177	3,096	3,500	3,500
Total assets		20,338	22,420	6,139	6,433
LIABILITIES					
Current liabilities					
Trade and other payables	19	1,890	2,651	89	60
Current income tax liabilities		9	63	-	-
Borrowings	20	2,031	2,567	-	-
Deferred government grant	21	29	57	-	-
		3,959	5,338	89	60
Non-current liabilities					
Deferred income tax liabilities	22	1	29	-	-
Total liabilities		3,960	5,367	89	60
NET ASSETS		16,378	17,053	6,050	6,373
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	23	6,365	6,365	6,365	6,365
Retained profits/(Accumulated losses)		10,013	10,688	(315)	8
Total equity		16,378	17,053	6,050	6,373

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Changes In Equity

For the Financial Year Ended 31 December 2016

		Attributable to equity holders of the Company		
	Note	Share capital \$'000	Retained profits \$'000	Total equity \$'000
2016				
Beginning of financial year		6,365	10,688	17,053
Total comprehensive loss for the year		-	(418)	(418)
Dividend paid relating to 2015		25	(257)	(257)
End of financial year		6,365	10,013	16,378
2015				
Beginning of financial year		6,365	10,299	16,664
Total comprehensive income for the year		-	865	865
Dividend paid relating to 2014		25	(476)	(476)
End of financial year		6,365	10,688	17,053

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the Financial Year Ended 31 December 2016

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Net (loss)/profit		(418)	865
Adjustments for:			
- Income tax expense	10	17	121
- Depreciation of property, plant and equipment	18	214	101
- Depreciation of investment property	17	55	-
- Impairment loss on investment property	17	224	-
- Gain on disposal of property, plant and equipment	6	(7)	(7)
- Property, plant and equipment written off		3	-
- Interest income	5	(72)	(72)
- Finance expense	8	76	64
		92	1,072
Change in working capital:			
- Inventories		(124)	357
- Trade and other receivables		2,117	(1,203)
- Trade and other payables		(1,120)	627
- Deferred government grant		(28)	41
Cash generated from operations		937	894
Income tax paid		(99)	(452)
Net cash provided by operating activities		838	442
Cash flows from investing activities			
Additions to property, plant and equipment	18	(740)	(239)
Additions to investment property	17	(478)	(1,116)
Interest received		76	74
Disposal of property, plant and equipment		7	7
Net cash used in investing activities		(1,135)	(1,274)
Cash flows from financing activities			
Proceeds from borrowings		8,077	9,474
Repayment of borrowings		(8,613)	(9,335)
Interest paid		(76)	(64)
Dividends paid to equity holders of the Company	25	(257)	(476)
Fixed deposits with maturity more than three months		(400)	(3,500)
Net cash used in financing activities		(1,269)	(3,901)
Net decrease in cash and cash equivalents		(1,566)	(4,733)
Cash and cash equivalents			
Beginning of financial year		3,858	8,591
End of financial year	12	2,292	3,858

The accompanying notes form an integral part of these financial statements

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 GENERAL INFORMATION

SMJ International Holdings Ltd. (“the Company”) is listed on the Catalist of the Singapore Exchange Securities Trading Limited (“SGX-ST”) and incorporated and domiciled in Singapore. The address of its registered office is 31 Jurong Port Road #02-20 Jurong Logistics Hub Singapore 619115.

The principal activity of the Company is investment holding. The principal activities of its joint venture and subsidiary corporations are described in Note 15 and Note 16 to the financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRSs”) under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRSs requires management to exercise its judgement in the process of applying the Group’s accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2016

On 1 January 2016, the Group adopted the new or amended FRS and Interpretations of FRS (“INT FRS”) that are mandatory for application for the financial year. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.

2.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group’s activities. Revenue is presented, net of goods and services tax, rebates and discounts, and after eliminating sales within the Group.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Revenue recognition (continued)

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(a) *Distribution sales*

Distribution sales refer to wholesale of carpets to dealers, carpet importers and carpet installation companies. Revenue from sale of carpets is recognised upon the transfer of significant risks and rewards of ownership of the goods to the customer, and generally coincides with their delivery and acceptance by customers.

(b) *Contract sales*

Contract sales refer to supply and delivery of carpets which includes the project management work, by handling the installation of these carpets on site for its customers. Revenue is recognised upon delivery of carpet and installation service rendered.

(c) *Interest income*

Interest income is recognised using the effective interest method.

(d) *Dividend income*

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

(e) *Rental income*

Rental income from operating leases (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease term.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Government grants

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants receivable are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income.

Government grants relating to asset are recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

2.4 Group accounting

(a) *Subsidiary corporations*

(i) *Consolidation*

Subsidiary corporations are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiary corporations are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of the transferred asset. Accounting policies of subsidiary corporations have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary corporation's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary corporation, even if this results in the non-controlling interests having a deficit balance.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Group accounting (continued)

(a) *Subsidiary corporations (continued)*

(ii) *Acquisitions*

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary corporation or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary corporation measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill.

(iii) *Disposals*

When a change in the Group's ownership interest in a subsidiary corporation results in a loss of control over the subsidiary corporation, the assets and liabilities of the subsidiary corporation including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained profits if required by a specific Standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Group accounting (continued)

(a) *Subsidiary corporations (continued)*

Please refer to the paragraph “Investments in subsidiary corporations and joint venture” for the accounting policy on investments in subsidiary corporations in the separate financial statements of the Company.

(b) *Transactions with non-controlling interests*

Changes in the Group’s ownership interest in a subsidiary corporation that do not result in a loss of control over the subsidiary corporation are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised within equity attributable to the equity holders of the Company.

(c) *Joint ventures*

Joint ventures are entities over which the Group has joint control as a result of contractual arrangements, and rights to the net assets of the entities.

Investments in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

(i) *Acquisitions*

Investments in joint ventures are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Goodwill on joint ventures represents the excess of the cost of acquisition of the joint venture over the Group’s share of the fair value of the identifiable net assets of the joint venture and is included in the carrying amount of the investments.

(ii) *Equity method of accounting*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise Group’s share of its joint ventures’ post-acquisition profits or losses of the investee in profit or loss and its share of movements in other comprehensive income of the investee’s other comprehensive income. Dividends received or receivable from the joint ventures are recognised as a reduction of the carrying amount of the investments.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Group accounting (continued)

(c) Joint ventures (continued)

(ii) Equity method of accounting (continued)

When the Group's share of losses in a joint venture equals to or exceeds its interest in the joint venture, the Group does not recognise further losses, unless it has legal or constructive obligations to make, or has made, payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transactions provide evidence of impairment of the assets transferred. The accounting policies of joint ventures are changed where necessary to ensure consistency with the accounting policies adopted by the Group.

(iii) Disposals

Investments in joint ventures are derecognised when the Group loses joint control. If the retained equity interest in the former joint venture is a financial asset, the retained equity interest is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when joint control is lost, and its fair value and any proceeds on partial disposal, is recognised in profit or loss.

Please refer to the paragraph "Investments in subsidiary corporations and joint venture," for the accounting policy on investments in joint ventures in the separate financial statements of the Company.

2.5 Property, plant and equipment

(a) Measurement

(i) Property, plant and equipment

All items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (continued)

(a) *Measurement (continued)*

(ii) *Components of costs*

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(b) *Depreciation*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	<u>Useful lives</u>
Computers	3 years
Furniture and fittings	10 years
Motor vehicles	5 years
Office equipment	10 years
Leasehold improvements	5 years

Fully depreciated property, plant and equipment still in use are retained in the financial statements.

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

(c) *Subsequent expenditure*

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the 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 repair and maintenance expenses are recognised in profit or loss when incurred.

(d) *Disposal*

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within "Other gains and losses".

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Borrowings costs

Borrowing costs are recognised in profit or loss using the effective interest method.

2.7 Investment properties

Investment properties include those residential buildings that are held for long-term rental yields and/or for capital appreciation. Investment properties include properties that are being constructed or developed for future use as investment properties.

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the straight-line method to allocate the depreciable amounts over the estimated useful lives of 50 years. Investment properties under construction are not depreciated. The residual values, useful lives and depreciation method of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in profit or loss when the changes arise.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are recognised in profit or loss. The cost of maintenance, repairs and minor improvements is recognised in profit or loss when incurred.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

2.8 Investments in subsidiary corporations and joint venture

Investments in subsidiary corporations and joint venture are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.9 Impairment of non-financial assets

Property, plant and equipment

Investment property

Investments in subsidiary corporations and joint venture

Property, plant and equipment, investment property and investments in subsidiary corporations and joint venture are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of non-financial assets (continued)

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset 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 amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense, a reversal of that impairment is also recognised in profit or loss.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and in the case of assets classified as held-to-maturity, re-evaluates this designation at each balance sheet date.

At the end of financial year, the Group does not hold any of the financial assets except loans and receivables.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(a) *Classification (continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as “Trade and other receivables” (Note 13) and “Cash and bank balances” (Note 12) on the balance sheet.

(b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

(c) *Initial measurement*

Financial assets are initially recognised at fair value plus transaction costs.

(d) *Subsequent measurement*

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(e) *Impairment*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(e) *Impairment (continued)*

Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

2.11 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiary corporation. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiary corporation fails to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantees are initially recognised at their fair values plus transaction costs in the Company's balance sheet.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial guarantees (continued)

Financial guarantees are subsequently amortised to profit or loss over the period of the subsidiary corporation's borrowings, unless it is probable that the Company will reimburse the banks for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried at the expected amount payable to the banks in the Company's balance sheet.

Intra-group transactions are eliminated on consolidation.

2.13 Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit and loss over the period of the borrowings using the effective interest method.

2.14 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

2.15 Fair value estimation of financial assets and liabilities

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Leases

(a) When the Group is the lessee:

The Group leases office and warehouse spaces under operating leases from non-related parties.

Lessee – Operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

(b) When the Group is the lessor:

The Group leases investment property under operating leases to non-related party.

Lessor – Operating leases

Leases of investment property where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

Contingent rents are recognised as income in profit or loss when earned.

2.17 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of inventories comprises the purchase price and other direct costs directly attributable to the acquisition of finished goods – carpets but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiary corporations and joint venture, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities except for investment properties. Investment property measured at fair value is presumed to be recovered entirely through sale.

Current and deferred income taxes are recognised as income and expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

The Group accounts for investment tax credits (for example, productivity and innovative credit) similar to accounting for other tax credits where deferred tax asset is recognised for unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Provisions

Provisions for other liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the statement of comprehensive income as finance expense.

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

2.20 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

(b) *Bonus plans*

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision when it is contractually obliged to pay or when there is a past practice that has created a constructive obligation to pay.

2.21 Currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Singapore Dollar ("SGD"), which is the functional currency of the Company.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Currency translation (continued)

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within "Finance expense". All other foreign exchange gains and losses impacting profit or loss are presented in the statement of comprehensive income within "Other gains and losses".

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(c) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities are translated at the closing exchange rates at the reporting date;
- (ii) income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal of the entity giving rise to such reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers whose members are responsible for allocating resources and assessing performance of the operating segments.

2.23 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the balance sheet, if any.

2.24 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.25 Dividends to Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

(a) *Impairment of loans and receivables*

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management has made judgements as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.1 Critical accounting estimates and assumptions (continued)

(a) Impairment of loans and receivables (continued)

Where there is objective evidence of impairment, management has made judgements as to whether an impairment loss should be recorded as an expense. In determining this, management has used estimates based on historical trends, actual and future expected cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience. The carrying amount of trade receivables at the end of financial year was \$5,084,000 (2015: \$7,054,000).

If the net present values of estimated cash flows had been higher/lower by 10% from management's estimates for all past due loans and receivables, the allowance for impairment of the Group would have been lower/higher by \$508,000 (2015: \$705,000).

(b) Net realisable value of inventories

A review is made periodically on inventory for obsolete and excess inventory and declines in net realisable value below cost and an allowance or write off is recorded against the carrying amount of the inventory balance for any such obsolescence, excess and declines. 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 write off or write down include management's expectations for future sales and inventory management which may materially affect the carrying amount of inventories as at financial year end. Possible changes in these estimates could result in revisions to the stated value of the inventories but these changes would not arise from the assumptions or other sources of estimation uncertainty at the end of the financial years. As at 31 December 2016, management has inventories written off of \$199,000 and inventories written down of \$119,000 during the year.

The carrying amount of inventories at the end of the financial year was \$4,569,000 (2015: \$4,445,000).

4 REVENUE

	Group	
	2016 \$'000	2015 \$'000
Distribution sales	9,291	11,292
Contract sales	7,003	9,437
	16,294	20,729

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

5 OTHER INCOME

	Group	
	2016 \$'000	2015 \$'000
Sundry income	98	74
Interest income – bank deposits	72	72
Government grant (Note 21)	28	9
Rental income from investment property (Note 17)	58	–
	256	155

6 OTHER GAINS AND LOSSES

	Group	
	2016 \$'000	2015 \$'000
Gain on disposal of property, plant and equipment	7	7
Property, plant and equipment written-off	(3)	–
Currency exchange gains - net	173	77
	177	84

7 EMPLOYEE COMPENSATION

	Group	
	2016 \$'000	2015 \$'000
Wages and salaries	2,180	2,314
Employer's contribution to defined contribution plan including Central Provident Fund	290	292
Other short-term benefits	178	203
	2,648	2,809

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

8 FINANCE EXPENSE

	Group	
	2016 \$'000	2015 \$'000
Interest expense – trust receipts	76	64

9 OTHER EXPENSES

	Group	
	2016 \$'000	2015 \$'000
Allowance for impairment - trade receivables – net [Note 28(b)(ii)]	160	–
Auditors' remuneration		
– Fees on audit services paid/payable to auditor of the Company		
– current year	74	69
– under provision in prior year	3	16
Bank charges	27	40
Bad debts (recovered)/write-off	(24)	58
Inventories write-off (Note 14)	199	–
Commission and agency fees	104	137
Entertainment	40	34
Insurance	102	114
Professional fees	324	280
Printing, stationery and postages	95	97
Rental expense on operating leases	854	797
Repair and maintenance	356	299
Sampling and pasting charges	121	87
Telecommunication	40	36
Travelling and transportation	134	169
Utilities	17	22
Write-down of inventories (Note 14)	119	–
Impairment loss on investment property (Note 17)	224	–
Donation and gifts	30	11
General expenses	88	6
Others	153	55
	3,240	2,327

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

10 INCOME TAXES

	Group	
	2016 \$'000	2015 \$'000
Tax expense attributable to profit is made up of:		
(Loss)/profit for the financial year		
- Current income tax	9	63
- Deferred income tax (Note 22)	(28)	20
	(19)	83
Under provision of current income tax in prior financial years	36	38
	17	121

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the Singapore standard rate of income tax as follows:

	Group	
	2016 \$'000	2015 \$'000
(Loss)/profit before tax	(401)	986
Tax calculated at tax rate of 17% (2015: 17%)	(68)	168
Effects of:		
- tax exemptions and incentives	(33)	(158)
- expenses not deductible for tax purposes	83	74
- income not subject to tax	(1)	(1)
- under provision of current income tax in prior financial years	36	38
Tax charge	17	121

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

11 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the net (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2016	2015
Net (loss)/profit attributable to equity holders of the Company (\$'000)	(418)	865
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share ('000)	78,000	78,000
Basic and diluted (loss)/earnings per share (cents per share)	(0.54)	1.11

There were no dilutive potential ordinary shares during the financial year.

12 CASH AND BANK BALANCES

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Cash at bank and on hand	1,892	1,358	462	362
Bank deposits	4,300	6,000	1,000	2,500
	6,192	7,358	1,462	2,862

For the purpose of presenting the consolidated statement of cash flows, cash and bank balances comprise the following:

	Group	
	2016 \$'000	2015 \$'000
Cash and bank balances(as above)	6,192	7,358
Less: Bank deposits with maturity more than three months	(3,900)	(3,500)
Cash and cash equivalents per consolidated statement of cash flows	2,292	3,858

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Trade receivables – non-related parties	5,284	7,105	–	–
Less: Allowances for impairment [Note 28(b)(ii)]	(200)	(51)	–	–
Trade receivables - net	5,084	7,054	–	–
Other receivables from subsidiary corporations	–	–	1,120	–
Advances to employees	55	75	–	–
Deposits	14	14	–	–
Interest income receivable	7	22	3	12
Prepayments	240	356	54	59
	5,400	7,521	1,177	71

Other receivables from subsidiary corporations are unsecured, interest-free and repayable on demand.

14 INVENTORIES

	Group	
	2016 \$'000	2015 \$'000
Finished goods	4,569	4,445

The Group has inventories write-off of \$199,000 (2015: Nil) and inventories write-down of \$119,000 (2015: Nil) during the financial year.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

15 INVESTMENT IN JOINT VENTURE

	Group	
	2016 \$'000	2015 \$'000
<i>Equity investments at cost</i>		
Beginning of financial year	–	–
Additions	359	–
End of financial year	359	–

The joint venture was incorporated on 10 November 2016 and remained dormant after incorporation.

There are no contingent liabilities relating to the Group's interest in the joint venture. The joint venture has share capital consisting solely of ordinary shares.

Detail of the joint venture held by the Group is as follows:

Name of entity	Principal activities	Country of business/ incorporation	% of ownership interest	
			2016 %	2015 %
PT Spektrum Megah Jaya ⁽¹⁾	Supply and distribution of carpets and other furnishing materials	Indonesia	33	–

⁽¹⁾ Not required to be audited as the company is presently dormant

16 INVESTMENTS IN SUBSIDIARY CORPORATIONS

	Company	
	2016 \$'000	2015 \$'000
<i>Equity investment at cost</i>		
Beginning of financial year	3,500	3,500
Additions	*	–
End of financial year	3,500	3,500

* Less than \$1,000

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

16 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

The Group had the following subsidiary corporations as at 31 December 2016 and 2015:

Name of entity	Principal activities	Country of business/ incorporation	Proportion of ordinary shares directly held by the Group		Proportion of ordinary shares directly held by the Company	
			2016 %	2015 %	2016 %	2015 %
SMJ Furnishings (S) Pte Ltd ⁽¹⁾	General wholesale trade of carpets and furnishings material	Singapore	100	100	100	100
Elite Management (Singapore) Pte. Ltd. ⁽²⁾	Property investment and management business	Singapore	100	–	100	–

⁽¹⁾ Audited by Nexia TS Public Accounting Corporation

⁽²⁾ Not required to be audited as the company is presently dormant

17 INVESTMENT PROPERTY

	Group	
	2016 \$'000	2015 \$'000
<i>Cost</i>		
Beginning of financial year	2,801	1,685
Additions	478	1,116
End of financial year	3,279	2,801
<i>Accumulated depreciation and accumulated impairment losses</i>		
Beginning of financial year	–	–
Depreciation charge	55	–
Impairment losses (Note 9)	224	–
End of financial year	279	–
Net book value		
End of financial year	3,000	2,801

The investment property is leased to a non-related party under operating lease.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

17 INVESTMENT PROPERTY (CONTINUED)

The following amounts are recognised in profit and loss:

	Group	
	2016 \$'000	2015 \$'000
Rental income (Note 5)	58	–
Direct operating expenses arising from:		
– Investment property that generate rental income	14	–
– Investment property that do not generate rental income	11	–

At the balance sheet date, the detail of the Group's investment property is as follows:

Location	Description/ existing use	Tenure	Lettable area (Sq m)
608 Telok Blangah Road, #08-01 ⁽¹⁾	Condominium	Freehold	160

⁽¹⁾ The property was granted the Temporary Occupation Permit ("TOP") on September 2015 and obtained the Strata Certificate of Title on May 2016.

Fair value hierarchy – Recurring fair value measurements

	Fair value measurements using		
	Quoted prices in active markets for identical assets (Level 1) \$'000	Significant other observable inputs (Level 2) \$'000	Significant unobservable inputs (Level 3) \$'000
Description			
31 December 2016			
– Condominium	–	3,000	–
31 December 2015			
– Condominium	–	3,198	–

Valuation techniques used to derive Level 2 fair values

Level 2 fair values of the Group's property has been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input in this valuation approach is the selling price per square metre.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

17 INVESTMENT PROPERTY (CONTINUED)

Valuation processes of the Group

The management reviews and analyses the valuation of the investment property required for financial reporting purposes, including Level 2 fair values. Discussions of valuation processes and results are held between the Board of Directors on a yearly basis.

The fair value of the investment property was measured based on the highest and best use method to reflect the actual market circumstances as of the end of financial year.

For financial year ended 31 December 2016, the fair values were based on valuations made by Knight Frank Pte Ltd, a firm of independent professional valuers. The firm holds recognised and relevant professional qualification with sufficient experience in the location and category of the investment property being valued. The valuation technique used was market approach.

For previous financial year ended 31 December 2015, the fair value was based on comparison with market evidence of recent transaction prices for similar properties at the same location obtained from the Urban Redevelopment Authority (“URA”).

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

18 PROPERTY, PLANT AND EQUIPMENT

	Computers \$'000	Furniture and fittings \$'000	Motor vehicles \$'000	Office equipment \$'000	Leasehold improvements \$'000	Total \$'000
2016						
<i>Cost</i>						
Beginning of financial year	273	215	469	27	–	984
Additions	6	71	102	27	534	740
Disposals	–	–	(36)	–	–	(36)
Write-off	(25)	(150)	(37)	(5)	–	(217)
End of financial year	254	136	498	49	534	1,471
<i>Accumulated depreciation</i>						
Beginning of financial year	146	213	314	16	–	689
Depreciation charge	64	6	62	4	78	214
Disposals	–	–	(36)	–	–	(36)
Write-off	(25)	(148)	(37)	(4)	–	(214)
End of financial year	185	71	303	16	78	653
Net book value						
End of financial year	69	65	195	33	456	818
2015						
<i>Cost</i>						
Beginning of financial year	90	215	455	27	–	787
Additions	183	–	56	–	–	239
Disposals	–	–	(42)	–	–	(42)
End of financial year	273	215	469	27	–	984
<i>Accumulated depreciation</i>						
Beginning of financial year	87	212	318	13	–	630
Depreciation charge	59	1	38	3	–	101
Disposals	–	–	(42)	–	–	(42)
End of financial year	146	213	314	16	–	689
Net book value						
End of financial year	127	2	155	11	–	295

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Trade payables – non-related parties	864	1,826	–	–
Other payables				
– non - related parties	219	341	29	28
– joint venture	358	–	–	–
Advance rental income received	6	–	–	–
Accruals for operating expenses	443	484	60	32
	1,890	2,651	89	60

Other payables due to joint venture, PT Spektrum Megah Jaya, are unsecured, interest-free and repayable on demand.

20 BORROWINGS

	Group	
	2016 \$'000	2015 \$'000
<i>Current</i>		
Bank borrowings – trust receipts	2,031	2,567

The exposure of the borrowings of the Group to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	Group	
	2016 \$'000	2015 \$'000
6 months or less	2,031	2,567

Security granted for financial years ended 31 December 2016 and 2015

The Company issued corporate guarantees of \$7,130,000 to secure the bank borrowings of the subsidiary corporation, SMJ Furnishing (S) Pte Ltd.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

21 DEFERRED GOVERNMENT GRANT

	Group	
	2016 \$'000	2015 \$'000
Beginning of financial year	57	16
Amount received from SPRING Singapore	–	50
Recognised in profit and loss during the financial year (Note 5)	(28)	(9)
End of financial year	29	57

Government grant relates to grant received from SPRING Singapore pertaining to the Group's new accounting software.

22 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined before and after appropriate offsetting, are shown on the balance sheet as follows:

	Group	
	2016 \$'000	2015 \$'000
Deferred income tax liabilities, representing accelerated tax depreciation		
– To be settled after one year	1	29

Movement in deferred income tax account is as follows:

	Group	
	2016 \$'000	2015 \$'000
Beginning of financial year	29	9
Tax charge to profit or loss (Note 10)	(28)	20
End of financial year	1	29

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

23 SHARE CAPITAL

Group and Company	Number of shares '000	Issued and paid- up share capital \$'000
2016		
Beginning and end of financial year	78,000	6,365
2015		
Beginning and end of financial year	78,000	6,365

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the Company.

24 RETAINED PROFITS/(ACCUMULATED LOSSES)

- (a) Retained profits of the Group and the Company are distributable.
- (b) Movement in (accumulated losses)/retained profits for the Company are as follows:

	2016 \$'000	2015 \$'000
Beginning of financial year	8	(675)
Net (loss)/profit	(66)	1,159
Dividends paid (Note 25)	(257)	(476)
End of financial year	(315)	8

25 DIVIDENDS

	Group	
	2016 \$'000	2015 \$'000
<i>Ordinary dividends paid</i>		
Final dividend paid in respect of previous financial year of 0.33 (2015: 0.61 cents) cents per share	257	476

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

26 CONTINGENCIES

Contingent liabilities

- (i) Contingent liabilities, of which the probability of settlement is remote at the balance sheet date, are as follows:

	Group	
	2016 \$'000	2015 \$'000
Performance guarantees	568	564

- (ii) During the financial year, the Company has issued corporate guarantees amounting up to \$7,130,000 to a bank for borrowings of its subsidiary corporation. These bank borrowings of the subsidiary corporation amounted to \$2,031,000 (2015: \$2,567,000) as at the balance sheet date.

The Company has evaluated the fair values of the corporate guarantees and the consequential liabilities derived from its guarantee to the bank with regards to the subsidiary corporation are minimal. The subsidiary corporation for which the guarantee was provided is in favourable equity position and is profitable, with no default in the payment of borrowings and credit facilities.

27 COMMITMENTS

- (a) Capital commitments

Capital expenditures contracted at the balance sheet date but not recognised in the financial statements, are as follows:

	Group	
	2016 \$'000	2015 \$'000
Investment property	–	478

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

27 COMMITMENTS (CONTINUED)

(b) Operating lease commitments – where the Group is a lessee

The Group leases office and warehouse from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	Group	
	2016 \$'000	2015 \$'000
Not later than one year	889	832
Between one and five years	226	1,115
	1,115	1,947

(c) Operating lease commitments – where the Group is a lessor

The Group lease out investment property to a non-related party under non-cancellable operating leases.

The future minimum lease receivables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as receivables, are as follows:

	Group	
	2016 \$'000	2015 \$'000
Not later than one year	12	–

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

28 FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to market risk (including currency risk, price risk and interest rate risk), credit risk, liquidity risk and capital risk. The Group's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. This includes establishing detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, and exposure limits.

(a) *Market risk*

(i) *Currency risk*

The Group operates in Singapore but regularly transacts in currencies other than its functional currency due to the wide geographical spread of sales. Currency risk arises in the Group when transactions are denominated in foreign currencies such as United States Dollars ("USD").

The Group's currency exposure based on the information provided to key management is as follows:

	SGD \$'000	USD \$'000	Total \$'000
<u>At 31 December 2016</u>			
Financial assets			
Cash and bank balances	5,887	305	6,192
Trade and other receivables	2,966	2,194	5,160
Receivables from subsidiary corporations	1,120	3	1,123
	9,973	2,502	12,475
Financial liabilities			
Trade and other payables	1,017	867	1,884
Borrowings	-	2,031	2,031
Payables to subsidiary corporations	1,120	3	1,123
	2,137	2,901	5,038
Net financial assets/(liabilities)	7,836	(399)	7,437
Currency exposure of financial liabilities net of those denominated in the respective entities' functional currencies	-	(399)	(399)

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(i) Currency risk (continued)

The Group's currency exposure based on the information provided to key management is as follows:

	SGD \$'000	USD \$'000	Total \$'000
<u>At 31 December 2015</u>			
Financial assets			
Cash and bank balances	6,894	464	7,358
Trade and other receivables	4,577	2,588	7,165
	11,471	3,052	14,523
Financial liabilities			
Trade and other payables	1,195	1,456	2,651
Borrowings	-	2,567	2,567
	1,195	4,023	5,218
Net financial assets/(liabilities)	10,276	(971)	9,305
Currency exposure of financial liabilities net of those denominated in the respective entities' functional currencies	-	(971)	(971)

The Company is not exposed to currency risk as all its financial assets and liabilities as at 31 December 2016 and 2015 are denominated in Singapore Dollars.

If the USD change against the SGD by 1.7% (2015: 7.4%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset that are exposed to currency risk will be as follows:

	Increase/ (decrease) Profit after tax	
	2016 \$'000	2015 \$'000
USD against SGD		
- Strengthened	(6)	(60)
- Weakened	6	60

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) *Market risk (continued)*

(ii) *Price risk*

The Group does not have exposure to equity price risk as it does not hold any equity financial assets.

(iii) *Cash flow and fair value interest rate risks*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income is substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from borrowings at floating interest rate. The Group manages its interest rate risk by keeping bank loans to the minimum required to sustain the operations of the Group.

The Group's borrowings at variable rates on which effective hedges have not been entered into are denominated mainly in USD. If the USD interest rates had been higher/lower by 0.50% (2015: 0.50%) with all other variables including tax rate being held constant, the impact to profit after tax as a result of higher/lower interest expense on these borrowings is not significant.

(b) *Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group are cash and bank balances and trade receivables. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit standing and history. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

Credit exposure to individual counterparty is restricted by credit limits that are approved by Executive Directors based on ongoing credit evaluation. The counterparty's payment pattern and credit exposure are continuously monitored by the Executive Directors.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

As the Group does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet, except as follows:

	Group	
	2016 \$'000	2015 \$'000
Corporate guarantees provided to bank on subsidiary corporation's borrowings	7,130	7,130

The trade receivables of the Group comprise 2 debtors (2015: 3 debtors) that individually represented 5% - 30% (2015: 6% - 22%) of trade receivables.

The credit risk of trade receivables based on the information provided to key management is as follows:

	Group	
	2016 \$'000	2015 \$'000
<u>By geographical areas</u>		
Hong Kong	52	42
Indonesia	1,954	811
Malaysia	159	283
Singapore	2,622	4,118
Philippines	113	1,578
Other countries	184	222
	5,084	7,054

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group	
	2016 \$'000	2015 \$'000
Past due less than 3 months	1,461	3,062
Past due over 3 months	2,989	1,636
	4,450	4,698

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment is as follows:

	Group	
	2016 \$'000	2015 \$'000
<u>Trade receivables</u>		
Gross amount	200	51
Less: Allowance for impairment	(200)	(51)
	-	-
Beginning of financial year	51	64
Allowance made (Note 9)	175	-
Allowance written back (Note 9)	(15)	-
Allowance utilised	(11)	(13)
End of financial year (Note 13)	200	51

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Financial assets that are past due and/or impaired (continued)

An allowance for impairment for trade receivables amounting to \$175,000 (2015: \$Nil) and a write-off of certain trade receivables amounting to \$14,000 (2015: \$58,000) has been made to the profit or loss, as recoverability is determined to be low because the customers or debtors are in financial difficulties and payments are not forthcoming (Note 9).

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities (Note 20). At the balance sheet date, assets held by the Group for managing liquidity risk included cash and bank balances as disclosed in Note 12.

Management monitors rolling forecasts of the liquidity reserve (comprises undrawn borrowing facility and cash and bank balances (Note 12) of the Group and the Company on the basis of expected cash flow. This is generally carried out in accordance with the practice and limits set by the Board of Directors.

The table below analyses non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

	Less than 1 year \$'000
<u>Group</u>	
At 31 December 2016	
Trade and other payables	1,884
Borrowings	2,031
At 31 December 2015	
Trade and other payables	2,651
Borrowings	2,567
<u>Company</u>	
At 31 December 2016	
Other payables	89
Financial guarantee contracts	2,031
At 31 December 2015	
Other payables	60
Financial guarantee contracts	2,567

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

Management monitors capital based on gearing ratio, and the Board of Directors monitors the Group's equity ratio on a periodic basis.

The gearing ratio is calculated as net debt divided by total capital. Net debt/(assets) is calculated as borrowings plus trade and other payables less cash and bank balances. Total capital is calculated as total equity plus net debt/(assets).

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital risk (continued)

	Group	
	2016 \$'000	2015 \$'000
Net assets	(2,271)	(2,140)
Total equity	16,378	17,053
Total capital	14,107	14,913
Gearing ratio	n/m	n/m

n/m – not meaningful

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2016 and 2015.

(e) Fair value measurements

The assets and liabilities measured and carried at fair value and classified by level of the following fair value measurement hierarchy:

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

The carrying amounts less allowance for impairment of trade receivables and payables are assumed to approximate their fair values. The carrying amounts of current borrowings approximate their fair values.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Financial instruments by category

The carrying amount of the different categories of financial instruments is as disclosed on the face of the balance sheet, except for the following:

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Loans and receivables	11,352	14,523	2,585	2,874
Financial liabilities at amortised cost	3,915	5,218	89	60

29 RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

Key management personnel compensation

Key management personnel compensation is as follows:

	Group	
	2016 \$'000	2015 \$'000
<u>Directors</u>		
Wages and salaries	482	553
Employer's contribution to defined contribution plan, including Central Provident Fund	40	43
	522	596
<u>Other key management personnel</u>		
Wages and salaries	267	329
Employer's contribution to defined contribution plan, including Central Provident Fund	39	42
	306	371
	828	967

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

30 SEGMENT INFORMATION

The Group's chief operating decision-maker ("CODM") comprises of the Chief Executive Officer, Deputy Chief Executive Officer and Chief Operating Officer. Management has determined the operating segments based on the reports reviewed by the CODM that are used to make strategic decisions, allocate resources and assess performance.

At 31 December 2016 and 2015, the Group has only one business segment, which is trade and distribution of wide array of carpets. This is based on the Group's internal organisation, management structure and the primary way in which the Board of Directors is provided with the financial information.

Whilst revenue are reported into two streams, as described below, the Group's results, the cost and balance sheets are only analysed into one operating segment.

Distribution sales

Distribution sales refer to wholesale of carpets to dealers, carpet importers and carpet installation companies.

Contract sales

Contract sales refer to supply and delivery of carpets which includes the project management work, by handling the installation of these carpets on site for its customers.

Geographical information

The Company is headquartered and has operations in Singapore.

The Group's revenue is mainly derived from the following geographical areas:

	2016 \$'000	2015 \$'000
<u>Distribution sales</u>		
Brunei	161	163
Indonesia	1,477	1,236
Malaysia	457	914
Saudi Arabia	394	811
Singapore	2,762	2,980
Philippines	3,594	4,489
Other countries	446	699
	9,291	11,292
<u>Contract sales</u>		
Singapore	7,003	9,437
	16,294	20,729

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

30 SEGMENT INFORMATION (CONTINUED)

Information of major customer

Revenue of approximately \$3,439,000 (2015: \$4,489,000) is derived from a single external customer at the financial year ended 31 December 2016.

31 NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Below are the mandatory standards, amendments and interpretations to existing standards that have been published and are relevant for the accounting periods beginning on or after 1 January 2017 or later periods and which the Group has not early adopted:

Effective for annual periods beginning on or after 1 January 2017

- Amendments to FRS 7 *Disclosure Initiative*
- Amendments to FRS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- Improvements to FRS (December 2016)
 - Amendments to FRS 112 *Disclosure of Interests In Other Entities*

Effective for annual periods beginning on or after 1 January 2018

- FRS 115 *Revenue from Contracts with Customers*
- FRS 109 *Financial Instruments*
- Amendments to FRS 40 *Transfers of Investment Property*
- Amendments to FRS 102 *Classification and Measurement of Share-based Payment Transactions*
- Amendments to FRS 115 *Clarifications to FRS 115 Revenue from Contracts with Customers*
- INT FRS 122 *Foreign Currency Transactions and Advance Consideration*
- Improvements to FRSs (December 2016)
 - Amendments to FRS 28 *Investments in Associates and Joint Ventures*
 - Amendments to FRS 101 *First-Time Adoption of Financial Reporting Standards*

Notes to the Financial Statements

For the Financial Year Ended 31 December 2016

31 NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS(CONTINUED)

Effective for annual periods beginning on or after 1 January 2019

- FRS 116 *Leases*

FRS 116 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of \$1,115,000 (Note 27(b)). However, the Group has yet to determine to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Effective date: to be determined

- Amendments to FRS 110 and FRS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

32 EVENTS OCCURRING AFTER BALANCE SHEET DATE

On 6 January 2017, the Company through its wholly owned subsidiary corporation, Elite Management (Singapore) Pte. Ltd., incorporated a wholly owned subsidiary corporation, Beijing Zhuoyue Tiancheng Business Management Co. Ltd in the People's Republic of China with a registered capital of USD1,000,000. The principal activity of the newly incorporated subsidiary corporation is of those related to property and hospitality management.

33 AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors of SMJ International Holdings Ltd. on 13 March 2017.

Statistics of Shareholdings

as at 3 March 2017

SHARE CAPITAL

Issued and fully paid capital	– \$7,420,100	Class of shares	– Ordinary shares
Total number of shares in issue	– 78,000,000	Voting rights	– 1 vote per share
Number of treasury shares	– Nil		

SHAREHOLDINGS HELD IN HANDS OF PUBLIC

Based on the information provided and to the best knowledge of the Directors, approximately 25.37% of the issued ordinary shares of the Company were held in the hands of the public as at 3 March 2017 and therefore Rule 723 of the Catalist Rules is complied with.

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 - 99	0	0.00	0	0.00
100 - 1,000	5	2.37	3,200	0.00
1,001 - 10,000	60	28.44	418,400	0.54
10,001 - 1,000,000	138	65.40	11,774,100	15.10
1,000,001 and above	8	3.79	65,804,300	84.36
TOTAL	211	100.00	78,000,000	100.00

Statistics of Shareholdings

as at 3 March 2017

TWENTY LARGEST SHAREHOLDERS

S/N	Name	Number of Shares	%
1	Zhang Tianbao	23,361,000	29.95
2	Ho Pei Yuen Rena	12,800,000	16.41
3	Ho Wan Jing Nellie	12,800,000	16.41
4	Lui Oi Kheng	5,599,000	7.18
5	Hafary Holdings Limited	3,780,000	4.85
6	Lee Lay Choo	3,200,000	4.10
7	UOB Kay Hian Private Limited	2,135,300	2.74
8	Maybank Kim Eng Securities Pte. Ltd.	2,129,000	2.73
9	Raffles Nominees (Pte) Limited	893,300	1.15
10	Tay Hua Hui or Yeo Boon Kiah	598,000	0.77
11	Julia Tan Ching Hua (Julia Chen Qinghua)	500,000	0.64
12	DBS Nominees (Private) Limited	326,000	0.42
13	Chng Lay Guat	300,000	0.38
14	Toh Hong Khoon	295,000	0.38
15	Low Kok Ann	290,000	0.37
16	Lui Wing Loon	280,000	0.36
17	Oh Eng Bin (Hu Rongming)	239,000	0.31
18	Tan Chay Long	230,000	0.29
19	Lim Boon Hwee	220,000	0.28
20	Teo Kye Hwee Tony	217,000	0.28
TOTAL		70,192,600	90.00

SUBSTANTIAL SHAREHOLDERS

Name of Substantial Shareholders	Direct Interest		Deemed Interest	
	Number of Shares	%	Number of Shares	%
Zhang Tianbao	23,361,000	29.95	–	–
Ho Pei Yuen Rena ^{(1), (2)}	12,800,000	16.41	–	–
Ho Wan Jing Nellie ^{(1), (2)}	12,800,000	16.41	–	–
Lui Oi Kheng ⁽¹⁾	5,599,000	7.18	–	–

Notes:

⁽¹⁾ Lui Oi Kheng is the mother of Ho Pei Yuen Rena and Ho Wan Jing Nellie.

⁽²⁾ Ho Pei Yuen Rena and Ho Wan Jing Nellie are sisters.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting (“**AGM**”) of **SMJ INTERNATIONAL HOLDINGS LTD.** (the “**Company**”) will be held at 31 Jurong Port Road, South Wing #02-20, Jurong Logistics Hub, Singapore 619115 on Monday, 10 April 2017 at 9:30 a.m., for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors’ Statement and the Audited Financial Statements for the financial year ended 31 December 2016 together with the Independent Auditor’s Report thereon. **(Resolution 1)**
2. To approve the payment of additional Directors’ fees of \$2,500 for the financial year ended 31 December 2016. **(Resolution 2)**
(see explanatory note 1)
3. To approve the payment of Directors’ fees of \$110,000 for the financial year ending 31 December 2017, to be paid half-yearly in arrears (2016: \$102,500). **(Resolution 3)**
4. To re-elect Mr Ng Tiang Hwa, a Director retiring pursuant to Regulation 107 of the Company’s Constitution. **(Resolution 4)**
(see explanatory note 2)
5. To re-elect Ms Ho Wan Jing Nellie, a Director retiring pursuant to Regulation 107 of the Company’s Constitution. **(Resolution 5)**
6. To re-elect Mr Peng Weile, a Director retiring pursuant to Regulation 117 of the Company’s Constitution. **(Resolution 6)**
7. To re-elect Mr Peng Fei, a Director retiring pursuant to Regulation 117 of the Company’s Constitution. **(Resolution 7)**
8. To re-appoint Nexia TS Public Accounting Corporation as auditor of the Company and to authorise the Directors to fix its remuneration. **(Resolution 8)**

AS SPECIAL BUSINESS

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

9. That pursuant to Section 161 of the Companies Act, Chapter 50 (the “**Companies Act**”) and Rule 806 of Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) (“**Catalist Rules**”), the Directors be authorised and empowered to: **(Resolution 9)**
 - (a) (i) allot and issue shares in the capital of the Company (“**Shares**”) whether by way of rights, bonus or otherwise; and/or

Notice of Annual General Meeting

- (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 may in their absolute discretion deem fit; and

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

- (1) the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed one hundred per centum (100%) of the total number of issued Shares (excluding treasury shares) (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares and Instruments to be issued other than on a pro rata basis to shareholders of the Company shall not exceed fifty per centum (50%) of the total number of issued Shares (excluding treasury shares) (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such calculation as may be prescribed by the SGX-ST) 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 (excluding treasury shares) shall be based on the total number of issued Shares (excluding treasury shares) at the time of the passing of this Resolution, after adjusting for:
 - (a) new Shares arising from the conversion or exercise of any convertible securities;
 - (b) new Shares arising from the exercise of share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution, provided that the share options or share awards (as the case may be) were granted in compliance with Part VIII of Chapter 8 of the Catalist Rules; 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 Catalist Rules for the time being in force (unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Companies Act and the Constitution of the Company for the time being; and

Notice of Annual General Meeting

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

(see explanatory note 3)

10. To transact any other business that may be properly transacted at an AGM.

BY ORDER OF THE BOARD

Wee Woon Hong
Company Secretary

24 March 2017
Singapore

Explanatory Notes:

1. The shareholders of the Company had approved the payment of Directors' fees of \$100,000 for the financial year ended 31 December 2016 at the AGM of the Company held on 8 April 2016. The additional Directors' fees of \$2,500 are payable to Mr Peng Fei who was appointed as a non-executive Director on 3 October 2016 on a pro rata basis.
2. Mr Ng Tiang Hwa will, upon re-election as a Director, remain as the Chairman of the Remuneration Committee and a member of the Audit Committee of the Company, and will be considered independent for the purposes of Rule 704(7) of the Catalist Rules.
3. The Ordinary Resolution 9 proposed in item 9 above, if passed, will empower the Directors, effective until the conclusion of the next AGM of the Company, or the date by which the next AGM 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, 100% of the total number of issued Shares (excluding treasury shares), of which up to 50% may be issued other than on a pro rata basis to shareholders of the Company.

Notes:

- (i) (a) A member of the Company entitled to attend and vote at the AGM and who is not a relevant intermediary may appoint not more than two proxies to attend and vote in his/her stead.
- (b) A member of the Company entitled to attend and vote at the AGM and who is a relevant intermediary may appoint more than two proxies provided that each proxy is appointed to exercise the rights attached to different shares held by such member.

"relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act.

Notice of Annual General Meeting

- (ii) A proxy need not be a member of the Company.
- (iii) If a proxy is to be appointed, the instrument appointing a proxy must be deposited at the registered office of the Company at 31 Jurong Port Road, South Wing #02-20, Jurong Logistics Hub, Singapore 619115 not later than 48 hours before the time appointed for holding the AGM.
- (iv) The instrument appointing a proxy must be signed by the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy is executed by a corporation, it must be executed either under its common seal or under the hand of any officer or attorney duly authorised.
- (v) A Depositor's name must appear on the Depository Register maintained by The Central Depository (Pte) Limited as at 72 hours before the time fixed for holding the AGM in order for the Depositor to be entitled to attend and vote at the AGM.

Personal Data Privacy:

"Personal data" in this notice of AGM has the same meaning as "personal data" in the Personal Data Protection Act 2012, which includes your name and your proxy's and/or representative's name, address and NRIC/Passport number. 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 and its proxy(ies)'s or representative'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 express 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, (iii) undertakes that the member will only use the personal data of such proxy(ies) and/or representative(s) for the Purposes; and (iv) 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. Your personal data and your proxy and/or representative's personal data may be disclosed or transferred by the Company to its subsidiaries, its share register and/or other agents or bodies for any of the Purposes, and retained for such period as may be necessary for the Company's verification and record purposes.

Sponsor's Statement:

This notice has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, Hong Leong Finance Limited (the "Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The Sponsor has not independently verified the contents of this notice.

This notice has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this notice, including the correctness of any of the statements or opinions made or reports contained in this notice.

The contact person for the Sponsor is Mr Tang Yeng Yuen, Vice President, Head of Corporate Finance, Hong Leong Finance Limited, at 16 Raffles Quay, #40-01A Hong Leong Building, Singapore 048581, telephone (65) 6415 9886.

SMJ INTERNATIONAL HOLDINGS LTD.

(Company Registration Number 201334844E)

(Incorporated in the Republic of Singapore)

Proxy Form

(Please see notes overleaf before completing this Form)

IMPORTANT

- Investors who hold shares under the Supplementary Retirement Scheme ("SRS Investors") may attend and cast their votes at the AGM in person. SRS Investors who are unable to attend the AGM but would like to vote, may inform their SRS Approved Nominees to appoint the Chairman of the AGM to act as their proxy, in which case, the SRS Investors shall be precluded from attending the AGM.
- This Proxy Form is not valid for use by SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

*I/We, _____ (Name) _____ (*NRIC/Passport/Registration No.)

of _____ (Address)

being a *member/members of SMJ International Holdings Ltd. (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 him/her, the Chairman of the Annual General Meeting ("AGM") of the Company as *my/our *proxy/proxies to attend and to vote for *me/us on *my/our behalf at the AGM of the Company to be held at 31 Jurong Port Road, South Wing #02-20, Jurong Logistics Hub Singapore 619115 on Monday, 10 April 2017 at 9:30 a.m. and at any adjournment thereof.

No.	Resolutions relating to:	No. of Votes For	No. of Votes Against
Ordinary Business			
1	To receive and adopt the Directors' Statement and the Audited Financial Statements together with the Independent Auditor's Report thereon		
2	To approve the payment of additional Directors' fees of \$2,500 for the financial year ended 31 December 2016		
3	To approve the payment of Directors' fees of \$110,000 for the financial year ending 31 December 2017, to be paid half-yearly in arrears		
4	To re-elect Mr Ng Tiang Hwa as a Director		
5	To re-elect Ms Ho Wan Jing Nellie as a Director		
6	To re-elect Mr Peng Weile as a Director		
7	To re-elect Mr Peng Fei as a Director		
8	To re-appoint Nexia TS Public Accounting Corporation as auditor of the Company and to authorise the Directors to fix its remuneration		
Special Business			
9	To authorise the Directors to allot and issue shares and convertible securities		

(Please indicate your vote 'For' or 'Against' with a tick [✓] within the box provided. Alternatively, please indicate the number of votes as appropriate. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the AGM.)

Dated this _____ day of _____ 2017

Signature(s) of Shareholder(s)
or Common Seal of Corporate Shareholder

Total number of Shares in	No. of Shares
(a) CDP Register	
(b) Register of Members	

*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 of the Company, 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. If no number is inserted, this proxy form will be deemed to relate to all the shares held by you.
2. A member of the Company who is not a relevant intermediary (as defined below) is entitled to appoint not more than two proxies to attend and vote at the AGM of the Company. Where such member appoints more than one proxy, he/she shall specify the proportion of his/her shareholding to be represented by each proxy. If no percentage is specified, the first named proxy shall be deemed to represent 100% of the shareholding and the second name proxy shall be deemed to be an alternate to the first named.
3. A member of the Company who is a relevant intermediary is entitled to appoint more than two proxies to attend and vote at the AGM of the Company, 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 one proxy, the number of shares in relation to which each proxy has been appointed shall be specified in the proxy form. In such event, the relevant intermediary shall submit a list of its proxies together with the information required in this proxy form to the Company.

“relevant intermediary” means:

- (i) 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;
 - (ii) 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
 - (iii) the Central Provident Fund Board (“**CPF 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 CPF Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.
4. A proxy need not be a member of the Company.
 5. The instrument appointing a proxy or proxies, duly executed, must be deposited at the Company’s registered office at 31 Jurong Port Road, South Wing #02-20, Jurong Logistics Hub, Singapore 619115 not less than 48 hours before the time appointed for the AGM.
 6. The instrument appointing a proxy or proxies must be executed 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 under its common seal or under the hand of its attorney or by an officer on behalf of the corporation.
 7. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney or other authority, the power of attorney or authority or a notarially certified copy thereof must be lodged with the instrument of proxy, failing which the instrument of proxy may be treated as invalid.
 8. A corporation which is a member may authorise by a resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, Chapter 50.
 9. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy 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 AGM, as certified by The Central Depository (Pte) Limited to the Company.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member is deemed to have accepted and agreed to the personal data privacy terms set out in the notice of AGM of the Company dated 24 March 2017.



SMJ INTERNATIONAL HOLDINGS LTD.

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