LHT HOLDINGS LIMITED

# Enhancing *Green* Competitiveness

## Annual Report 2015

LHT HOLDINGS LIMITED

# Contents



# Corporate Profile

## LHT HOLDINGS LIMITED

LHT Holdings Limited has been in the timber industry for over 30 years and has grown into one of the largest manufacturers of high quality wooden pallets, boxes and crates in Singapore, with facilities occupying 63,568 sqm of land. LHT was listed on the Main Board of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 26 July 1999. Since establishment in 1977, LHT's staff strength has grown to 178 employees in Singapore and a total of 340 employees in the Group.

| ISO Certifications | |
|---|---|
| **1997** | Awarded ISO 9001 certification on the quality management system |
| **2001** | Awarded ISO 14001 certification on its environmental management system highlighting LHT's commitment towards environmental excellence |

LHT's commitment to excellence and a greener environment has been recognised with the receipt of many important awards and certifications. LHT has been presented with the SEC-Senoko Power Green Innovation Award (2005) and the Company's Technical Wood® and Greenflo® products have also been granted Green Label Scheme by the Singapore Environment Council.

The Company has been a multiple recipient of the Enterprise 50 Award (1995 and 1996) and received the 27th International Trophy for Quality by the Trade Leader's Club based in Madrid, Spain (1998). In 2002, LHT has also received the 21st Century, Global Triumphant Product Golden Rim Award from the Medium Business Development Association of China in recognition of its contribution to the industry.

As part of LHT's commitment to protect the Earth's precious timber resources and reduce waste, LHT established Singapore's first wood waste recycling plant equipped with a highly automated German system to produce a series of Technical Wood® products. The advanced technology allows products to be made with greater consistency in colour and texture and to a higher density. These products undergo a strict process of treatment and drying to prevent wood cracking, mould and insect attacks and are ideally suited to furniture, flooring, building material and heavy-duty industrial applications.

With its commitment to improving the environment and highly automated machinery, LHT was selected by the Ministry of the Environment as a participant for its "Clean and Green Week" annually. This gave LHT a tremendous opportunity to showcase its advanced techniques, product applications, as well as its Technical Wood®, wooden pallet and case and wood waste recycling plant to a diverse range of stakeholders, including the staff of the statutory board, potential business partners and the public at large.

TÜV SÜD ISO 14001

CERT NO.: 2001-0131
ISO 14001 : 2004

TÜV SÜD ISO 9001

CERT NO.: 97-2-0670
ISO 9001 : 2008

# Corporate Structure and Corporate Information


## BOARD OF DIRECTORS

| | | |
|---|---|---|
| Neo Koon Boo | - | *Managing Director* |
| Tan Kim Sing | - | *Executive Director* |
| Yap Mui Kee | - | *Executive Director* |
| Tan Kok Hiang | - | *Non-Executive, Lead Independent Director* |
| Low Peng Kit | - | *Non-Executive, Independent Director* |
| Wu Chiaw Ching | - | *Non-Executive, Independent Director* |
| Sally Yap Mei Yen | - | *Alternate Director to Yap Mui Kee/ Corporate Secretary* |

## COMPANY SECRETARY

Sally Yap Mei Yen

## AUDIT COMMITTEE

Tan Kok Hiang - *Chairman*
Low Peng Kit
Wu Chiaw Ching

## NOMINATING COMMITTEE

Low Peng Kit - *Chairman*
Tan Kok Hiang
Wu Chiaw Ching

## REMUNERATION COMMITTEE

Tan Kok Hiang - *Chairman*
Low Peng Kit
Wu Chiaw Ching

## REGISTERED OFFICE

27 Sungei Kadut Street 1
Singapore 729335
Tel : (65) 6269 7890
Fax: (65) 6367 4907

## WEBSITE

http://www.lht.com.sg
http://www.technicalwood.com.sg
http://www.ecrpallet.com
http://www.ippcpallet.com
http://www.greenflo.com
http://www.gpac.com.sg

## EMAILS

enquiry@lht.com.sg
ir@lht.com.sg *(for investor relations matters)*

## SHARE REGISTRAR

BACS Private Limited
8 Robinson Road #03-00
ASO Building
Singapore 048544
Tel: (65) 6593 4848
Fax: (65) 6593 4847

## AUDITORS

BDO LLP
Public Accountants and
Chartered Accountants
21 Merchant Road #05-01
Singapore 058267
Partner: Ms Hong Bee Lain Jacqueline
*(Appointed from the financial year ended 31 December 2014)*

## PRINCIPAL BANKERS

Bank of China
CIMB Bank Berhad
DBS Bank Ltd
Malayan Banking Berhad
United Overseas Bank Ltd

# Chairman's Statement

*"The ability to increase market share while maintaining profit margin is key to the business."*

# Chairman's Statement

***Dear Shareholders***

On behalf of the Board Directors, I am pleased to present the Annual Report and audited Financial Statements of LHT Group for Financial Year 2015.

## REVIEW OF PERFORMANCE

For the Financial Year 2015, the Group registered revenue of $51.83 million, an 8.0% increase from $48.01 million in FY2014. Revenue from pallet and packaging products increased by 11.2% to $42.42 million (2014: $38.14 million), mainly due to increased market demand, while revenue from trading in timber-related product decreased by 7.7% to $3.25 million (2014: $3.52 million). Revenue from Technical Wood® and woodchips supply decreased by 13.1% to $1.85 million (2014: 2.13 million) due to increased internal supply for own use, which means decreased sales to external parties, as well as maintenance works in FY2015. Revenue for pallet rental and others services have increased by 2.1% to $4.31 million (2014: $4.22 million) due to increase in customer base and stronger demand in the logistics market.

The Group's net profit after tax increased from $3.01 million in 2014 to $3.83 million in 2015. This is mainly due to the higher revenue generated for the year.

The Group's achievements still largely depend on its core business of manufacturing and sale of pallets and packaging cases. The ability to increase market share while maintaining profit margin is key to the business.

The Board will recommend a first and final one-tier exempt dividend of $0.03 per ordinary share with respect to the Financial Year ended 31 December 2015.

## OUTLOOK

In view of the significant drop in oil prices in recent months and the volatility in US Dollars and the Malaysian Ringgit currencies, the Group expects market conditions to remain challenging and profit margin continues to be under pressure. In view of this, the Group will continue to keep up its marketing efforts as well as cost management. The Group will continue to enhance its competitiveness by maintaining product quality, prompt delivery, cost control measures and improvement in productivity. The Group is confident that these efforts will enable the Group to stay competitive and at the same time ensure continued growth and sustainability.

## ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to thank our customers, shareholders, bankers and business associates for their continuous support as well as the management and staff for their dedication over the years.

**Neo Koon Boo**
*Chairman*

# Board of Directors

### 1. Mr Neo Koon Boo

*Managing Director*

Mr Neo Koon Boo is the Company's Co-founder and Managing Director. With more than 30 years in the timber industry, Mr Neo is responsible for the Company's overall management and financial well-being. Since establishment in 29 August 1980, he has played a key role in charting the Company's strategic direction, consumer experience and base, and the supplier network within the region. Today, Mr Neo is the driving force behind the Company's wood waste recycling operations. He believes a green environment is possible through the partnership of wood waste management and new recycling technology. Through his efforts, the Company has received the prestigious green label and green innovative awards. Mr Neo believes that these awards creates awareness of recycled materials and at the same time, encourages the demand of Technical Wood® products.

### 2. Mr Tan Kim Sing

*Executive Director*

Mr Tan Kim Sing is the Company's Co-founder and Executive Director since the Company's establishment in 1980. With more than 26 years of experience in the timber industry, Mr Tan is well-versed in the production of wooden crates and pallets and the procurement of timber. He is responsible for the Company's production operations and is involved in the direct purchase of raw materials for the Group. He holds a Diploma in Business Administration from the Productivity and Standards Board in Singapore.

### 3. Ms Yap Mui Kee

*Executive Director and Acting Managing Director*

Ms Yap Mui Kee has been the Executive Director of the Company since 2 January 1988 and is in charge of the sales and marketing functions of the Group, she is also the Acting Managing Director. She has over 20 years of experience in sales and marketing and plays a key role in exploring opportunities in new markets. Part of her responsibility is also to monitor market developments and streamline the Company's product development efforts according to market demands. Ms Yap spearheads the Group's RFID (Radio Frequency Identification) ECR Pallet Tracking System and is actively involved in the Group's ECR (Efficient Consumer Response) pallet rental business in Singapore and Malaysia. She holds a Diploma in Sales and Marketing from the Marketing Institute of Singapore and has been awarded the certificate after the completion of the Operation Management Innovation (OMNI) Programme conducted by A*Star in 2011. She is also a member of the Singapore Institute of Directors.

# Board of Directors

**1. Mr Tan Kok Hiang**

*Non-Executive, Lead Independent Director*

Mr Tan Kok Hiang joined the Company as an Independent Director on 1 July 1999. He is experienced in capital markets functions, corporate finance, asset management, financial investments, accounting, and corporate administration. Mr Tan currently sits on the board of a few other public listed companies as an Independent Director. He graduated from the University of Singapore with a Bachelor of Accountancy (Honours) degree and is a member of the Singapore Institute of Directors.

**2. Mr Low Peng Kit, BBM(L)**

*Non-Executive, Independent Director*

Mr Low Peng Kit, BBM(L) joined the Company as Independent Director on 1 July 1999. He is also the Managing Director of FMC Education Centre Pte Ltd, First Medical Centre Pte Ltd and he sits on the board of companies in the education, healthcare and marketing sectors. Apart from being involved in the sales, administration and accounting roles in these organisations, Mr Low is also an active participant in the grassroots organisations. He is currently the Honorary Chairman of Yew Tee Citizens' Consultative Committee, Co-Chairman of Yew Tee Community Club Building Fund Committee, Vice Chairman of PAP Community Foundation Yew Tee Branch, Committee Member of the South West Community Development Council and Chairman of Yew Tee Active Ageing Committee. He also chairs Kranji Secondary School's Advisory Committee and is a member of the Singapore Institute of Directors.

**3. Dr Wu Chiaw Ching**

*Non-Executive, Independent Director*

Dr Wu Chiaw Ching joined the Company as Independent Director on 12 March 2007. He presently is the Lead Independent Director of GDS Global Limited and Goodland Group Limited, Independent Director of Natural Cool Holdings Limited and Gaylin Holdings Limited. He is also a Partner of Wu Chiaw Ching & Company and fellow member of the Institute of Singapore Chartered Accountant, the Association of Chartered Certified Accountants, United Kingdom and Certified Public Accountants, Australia, and a member of the Singapore Institute of Directors.

**4. Ms Sally Yap Mei Yen**

*Alternate Director to Yap Mui Kee/ Corporate Secretary*

Ms Sally Yap Mei Yen has been Alternate Director to Ms Yap Mui Kee since 20 July 1998, and has held the role of Corporate Secretary of the Company since 29 March 2001, making her responsible for corporate secretarial and corporate affairs of the Company. With a background in audit, accounting and corporate secretarial functions, Ms Yap is also Corporate Secretary of the Company's Singapore subsidiaries and Supervisor of the Company's Chinese subsidiary. She holds a Master of Business Administration Degree in finance from Manchester Business School, The University of Manchester, and is a Fellow of the Association of Chartered Certified Accountants (United Kingdom) and Chartered Secretaries Institute of Singapore and is a member of The Institute of Chartered Secretaries and Administrators (United Kingdom). She is also a non-practising member of the Institute of Singapore Chartered Accountants (ISCA) and a member of the Singapore Institute of Directors.

# Senior Management

### Mr Vincent Tan Khar Kheng

Mr Vincent Tan Khar Kheng joined the Company on 19 March 2015 as Administration and Financial Controller. His responsibilities include overseeing the overall Group accounting and financial management, Human Resource and other administrative functions. Mr Tan has had over 20 years of experience in the area of financial management in multinational companies in both Singapore and Indonesia. He graduated from the Nanyang Technological University with a Bachelor in Accountancy Degree (Honours) and holds a Master of Business Administration Degree from The Heriot-Watt University (United Kingdom). Mr Tan is also a non-practising member of the Institute of Singapore Chartered Accountants (ISCA).

### Mr William Yap Yew Weng

Mr William Yap Yew Weng joined the Company in June 1985 as Senior Sales Manager, and is in-charge of the sales of pallet packaging and timber-related products. He has over 20 years of experience in the sales and marketing of pallet packaging products and services, and has established numerous long-term customer relationships along the way. Mr Yap holds a Diploma in Sales & Marketing from the Marketing Institute of Singapore.

### Mr Yeo Boon Chan

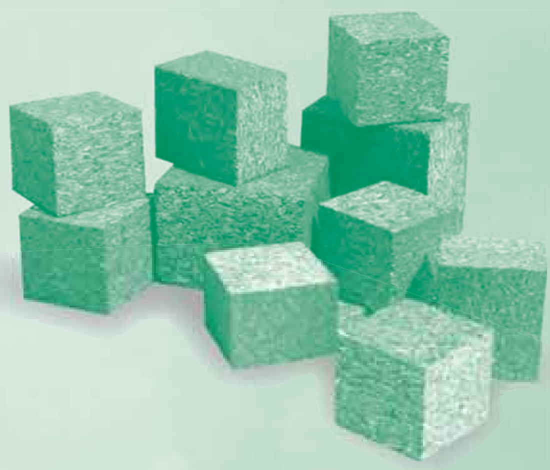
Mr Yeo Boon Chan joined the Company in April 1990 and has held various positions including Logistic & Warehouse Manager, and Deputy Factory Manager. Today, with over 15 years of experience in the timber and timber-related material purchasing industry, he holds the position of Procurement Manager and is responsible for the Company's overall procurement functions. Prior to joining the Company, Mr Yeo worked with Tong Nam Timber Pte Ltd.

### Mr Derek Neo Kah Seng

Mr Derek Neo Kah Seng joined the Company in July 1989, and has held the roles of Shipping Officer, Export Sales Assistant Manager, Recycle Plant Assistant Manager and currently, Plant Manager, in-charge of overall operations at the Company's recycle plant. With over a decade's experience in export sales of pallets and timber-related materials, Mr Neo is a veteran in the area of import and export. He holds a Bachelor of Science in Computer with Economics Degree and Diploma in Economics from The Open University in UK, and a Diploma in Electrical Engineering from Singapore Polytechnic. Prior to joining the Company, he worked with Miniscribe Peripherals (Pte) Ltd and Fujitec Singapore Corporation Ltd.

### Mr Benny Kok Chee Chuen

Mr Benny Kok Chee Chuen joined the Group in 1983 as Production Supervisor and was Assistant Production Manager of the Pallet Department before being promoted to his current role of Production Manager. He is responsible for production of cases, packaging and flooring products. Mr Kok has over 15 years of experience in the area of the manufacturing and production of pallets, cases, packaging and timber-related products.



# Operating and Financial Review

## OPERATING REVIEW

### Pallet and Packaging Products

The pallet and packaging business registered revenue of $42.42 million (2014: $38.14 million), an increase of 11.2% over last year, mainly due to increased demand from local exporters while segmental result achieved a higher net profit of $3.95 million, as compared to a net profit of $1.24 million for last year mainly due to increased turnover and better cost control.

The Group expects this sector to continue growing and remain the main source of income as the Group aim to enhance the presence of our IPPC pallet and Technical Wood® pallet and pest-free pallet range in new markets and continue to drive demand in the existing ones.

### Timber-Related Products

Revenue for timber-related products decreased by about 7.7% to $3.25 million (2014: $3.52 million) as a result of decrease in demand from local agent for the export market. The segmental result registered net profit of $0.31 million compared to net profit of $1.74 million last year mainly due to market competition. The Group will continue to look for business opportunities to maintain its trading activities.

### Technical Wood® Products

The revenue of Technical Wood® products and woodchip supply decreased by 13.1% to $1.85 million (2014: $2.13 million) due to increased internal supply for own use, which means decreased sales to external parties, as well as maintenance works in FY 2015. Consequently, segmental result registered net profit of $0.49 million as compared to $1.00 million last year.

# Operating and Financial Review

## Pallet Rental and Others

The revenue for pallet rental has increased by 2.1% to $4.31 million (2014: $4.22 million) due to increase in customer base and higher demand in the logistics market. Accordingly, the segmental profit registered a higher profit of $0.95 million (2014: $0.35 million). As the region is expected to grow, we are confident pallet rental demand will remain strong locally and in Malaysia.

## Other Subsidiary Companies

Kim Hiap Lee Company (Pte) Limited, which deals mainly with pallet rentals, registered revenue of $2.99 million and an operating profit of $0.72 million, after tax.

Lian Hup Packaging Industries Sdn Bhd, which specialises in the sales of wooden products, pallet rental, timber and packaging, registered revenue of $1.87 million and operating profit of $0.14 million, after tax.

Siri Belukar Packaging Sdn Bhd, which serves primarily as the manufacturing base to supply pallets for LHT Holdings Limited, registered revenue of $7.56 million and operating profit of $0.73 million, after tax.

LHT Marketing Pte Ltd, which is the trading arm for LHT Group, registered revenue of $1.02 million with an operating profit of $ 0.16 million, after tax.

LHT Ecotech Resources Pte Ltd, an integrated solutions provider for all types of wood waste recycling businesses, registered revenue of $1.85 million with operating profit of $0.27 million after tax for its operation of woodchips supply to Tuas Power Project.

LHT Ecotech Resources (Tianjin) Co., Ltd was established to engage in environmental wood product manufacturing, wholesale, retail, import & export and RFID pallet rental business. The company just started its trading operations, and registered revenue of $2.43 million with a loss of $0.15 million due to its fixed administrative expenses incurred.

LHT Gpac Technology (M) Sdn Bhd was incorporated for the manufacturing of pest-free pallets, IPPC pallets, wood waste recycling management and industrial packaging. It registered revenue of $2.80 million and a net loss of $0.06 million due to costs incurred in innovating and promoting of pest free pallets.

## Potential Business Factors and Risks

The Group expects to be affected by higher operating costs and foreign exchange fluctuations, accompanied by higher timber prices. To maintain our competitive edge, we have continued to maintain the following strategies:

(1) To use our subsidiaries in Malaysia as our main manufacturing base where we tap on cheaper labour costs and our subsidiary in China to source for raw materials at lower costs.

(2) To source for high-quality timber from overseas suppliers, like New Zealand and Australia, thereby keeping process wastages to a minimum.

(3) To maintain inventory at a reasonable level so as to minimise inventory holding cost.

(4) To raise productivity by using Government's grants in innovation of technology and encourage our employees to upgrade through training and on-the-job innovation.

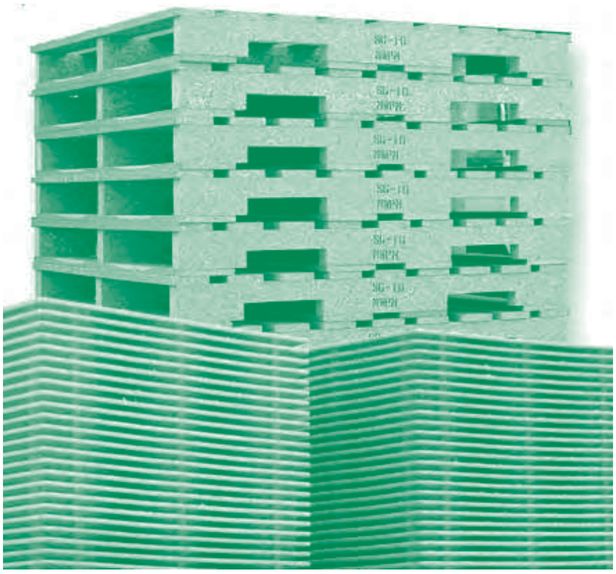
The acceptance and recognition of the environmental-friendly Technical Wood® products, pest-free pallets, IPPC pallets and pallets rental services in the local and overseas markets will help boost our core business.

## Human Resource and Quality Management

By the end of February 2016, The Group has a workforce of 178 employees in Singapore. Together with our subsidiaries in Malaysia and China, we now have a total of 340 employees.

The Group continues to conduct training courses for staff to fulfil the requirements of ISO accreditation. We are also conducting ongoing training programmes to upgrade our employees' skills. Courses such as fire and safety programmes and on-the-job training programmes are in place to help employees adapt easily to their new working environment. We remain an impartial and fair employer, ensuring all employees are equally treated and, encouraging them to participate in curriculum like the Skills Training for Excellence Programme and the Continuing Education and Training Programme.

# Operating and Financial Review



Employees are an important asset to The Group. We appreciate their dedication and contribution to The Group. As of today, 87 employees have been acknowledged with long services awards.

Our ISO committees will continue to review and improve our quality management system to enhance productivity and competitiveness.

## FINANCIAL REVIEW

### Cash Flows and Liquidity

For the year ended 31 December 2015, The Group's net cash generated from operating activities increased to \$9.38 million (2014: \$2.96 million) and net cash and cash equivalents increased by \$3.30 million from \$5.92 million to \$9.22 million. The net increase was mainly due to the decrease of inventories and trade and other receivables.

The Group's current ratio increased from 3.7 in FY 2014 to 3.8 in FY 2015, while the quick ratio also increased from 2.5 to 2.7 respectively. Net asset value per share increased from 80.65 cents (adjusted for 4-in-1 share consolidation in FY 2015) to 82.86 cents as at 31 December 2015, due to an increase in net tangible assets for the year. The shareholder's equity for the Group increased to \$44.12 million (2014: \$42.94 million), while total assets increased to \$54.17 million (2014: \$53.88 million).

*"The revenue for pallet rental has increased by 2.1% to \$4.31 million (2014: \$4.22 million) due to increase in customer base and higher demand in the logistics market."*

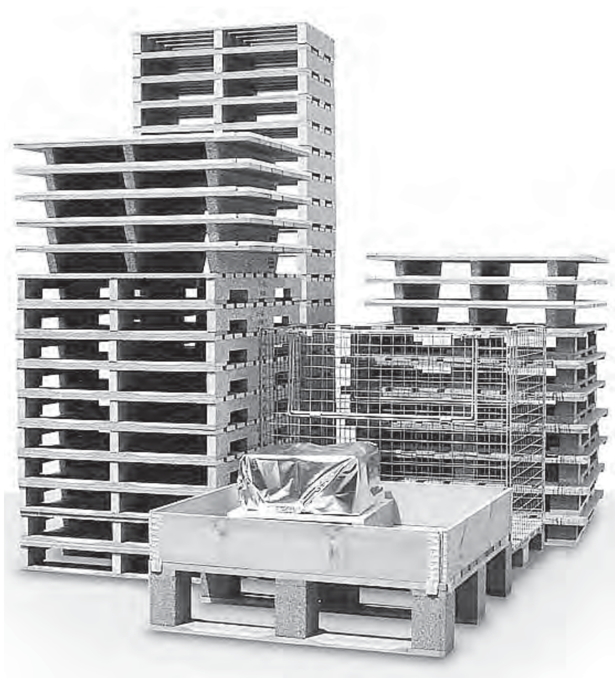
### Funding, Borrowings and Risk Management

The Group funds its investments and operations through a mixture of shareholders' funds and bank borrowings. The Group's total borrowings including finance lease decreased to \$2.95 million from \$4.11 million as the loans are being paid off. Long-term borrowings decreased to \$1.47 million (2014: \$2.70 million) and the balance is of a short-term nature. In line with the decrease in total borrowings, total debt ratio have also decreased to 22.8% (2014: 25.5%).

The detail of the Group's borrowings, interest rate and financial and capital risk management policies are disclosed in Note 11, Note 29 and Note 30 to the Financial Statements.

### Capital Expenditure

The Group's total capital expenditure incurred for the year was \$3.01 million (2014: \$3.28 million). This consists mainly of the amount of \$1.13 million for the purchase of plant and equipment and \$1.68 million for new rental pallets to facilitate the Group's aims in increasing its market share in the pallets rental segment.

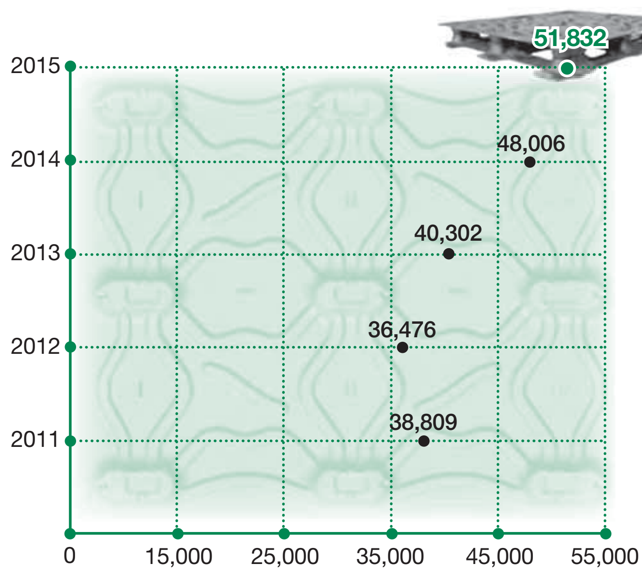


# Financial Summary

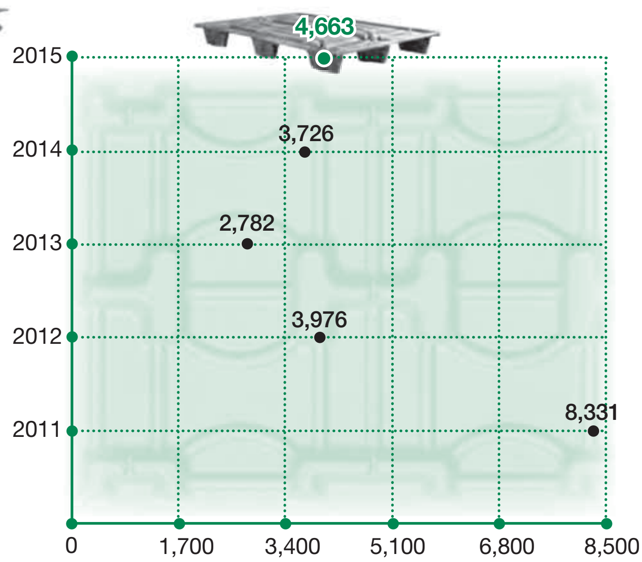
For the Financial Year Ended 31 December

*"Net asset value per share increased from 80.65 cents to 82.86 cents as at 31 December 2015, due to an increase in net assets for the year."*

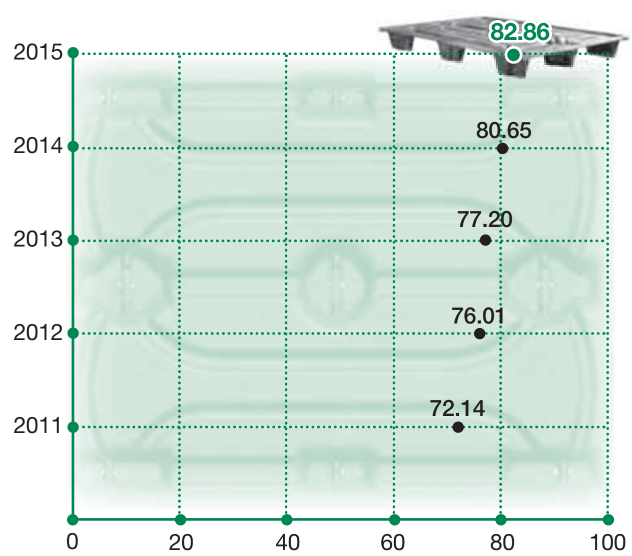
**Revenue** S$'000



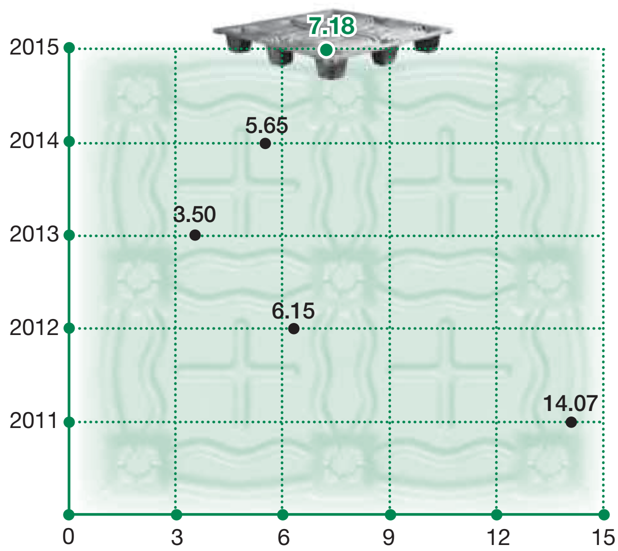

**Profit Before Income Tax** S$'000




**Net Assets Per Share** cents




**Earnings Per Share** cents



# Financial Summary

For the Financial Year Ended 31 December

## Result of Operations

| $'000 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Revenue | 38,809 | 36,476 | 40,302 | 48,006 | 51,832 |
| Other income | 6,611 | 4,409 | 3,739 | 4,113 | 3,898 |
| Profit before income tax | 8,331 | 3,976 | 2,782 | 3,726 | 4,663 |
| Income tax expense | (839) | (700) | (917) | (718) | (838) |
| Profit after income tax attributable to: | | | | | |
| Equity shareholders of the Company | **7,492** | **3,276** | **1,865** | **3,008** | **3,825** |
| Earnings per share<br>Basic and diluted (cents)** | 14.07 | 6.15 | 3.50 | 5.65 | 7.18 |

## Financial Position

| $'000 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Property, plant and equipment | 18,614 | 20,069 | 22,637 | 22,198 | 20,871 |
| Investment property | 5,045 | 5,500 | 5,500 | 5,750 | 5,750 |
| Intangible asset | 19 | - | - | - | - |
| Deferred tax assets | 46 | - | - | - | - |
| Current assets | 22,555 | 22,926 | 24,960 | 25,933 | 27,548 |
| Current liabilities | (5,032) | (4,423) | (6,823) | (7,034) | (7,326) |
| Net current assets | 17,523 | 18,503 | 18,137 | 18,899 | 20,222 |
| Non-current liabilities | (2,834) | (3,603) | (5,168) | (3,905) | (2,722) |
| | **38,413** | **40,469** | **41,106** | **42,942** | **44,121** |

### Equity

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Equity attributable to equity holders of the Company | **38,413** | **40,469** | **41,106** | **42,942** | **44,121** |
| Net assets per share (cents)** | 72.14 | 76.01 | 77.20 | 80.65 | 82.86 |

*Note:*

*As there were no outstanding potentially dilutive ordinary shares, the diluted earnings per ordinary share were accordingly the same as the earnings per ordinary share for the respective financial year.*

***On 21 August 2015, the Company completed its shares consolidation exercise. The comparative figures have been adjusted for the effect of share consolidation.*

# Significant Events of 2015

LHT HOLDINGS LIMITED

## 24 April 2015

Held Annual General Meeting.

## 24 June 2015

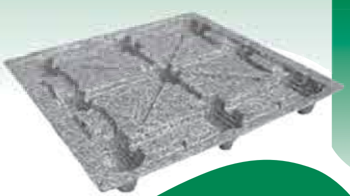
Took part in the Singapore Packaging Conference & Star Award Gala Dinner 2015 at Marina Mandarin Singapore which was graced by Minister of State Sam Tan, Prime Minister's Office & Ministry of Culture, Community and Youth.

## 16 July 2015

Held Extraordinary General Meeting to approve share consolidation.

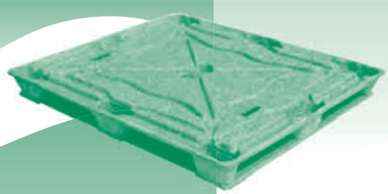
## 9 August 2015

Was the Sponsor of packaging supplies at the National Day Parade 2015 – SG50.



## 30 September 2015 to 2 October 2015

Participated in the Manufacturing Solutions Expo 2015 at Suntec Singapore Convention & Exhibition Centre, Hall 401 – 402.

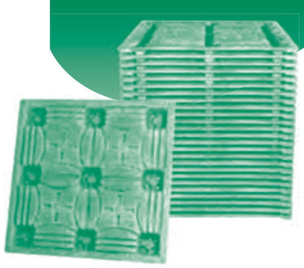


## 7 to 9 October 2015

Participated in the Indonesia Transport, Supply Chain & Logistics (ITSCL) Expo 2015 which was held at Jakarta International Expo.

## 8 October 2015

Participated in the MPTC Conference and Technology Exhibition held at SIMTech.



## 5 November 2015

Participated in the SMC Conference and Technology Exhibition 2015 held at SIMTech.

# Report of the Directors

The Directors of LHT Holdings Limited (the "Company") present their statement to the members together with the audited financial statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2015 and the statement of financial position and statement of changes in equity of the Company as at 31 December 2015.

## 1. Opinion of the Directors

In the opinion of the Board of Directors,

(a) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company together with the notes thereon are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015, and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended; and

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

## 2. Directors

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

Neo Koon Boo
Tan Kim Sing
Yap Mui Kee
Low Peng Kit
Tan Kok Hiang
Dr Wu Chiaw Ching
Sally Yap Mei Yen (Alternate Director to Yap Mui Kee)

## 3. Arrangements to enable Directors to acquire shares or debentures

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

## 4. Directors' interests in shares or debentures

According to the Register of Directors' Shareholdings kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), none of the Directors of the Company holding office at the end of the financial year had any interests in the shares or debentures of the Company and its related corporations except as detailed below:

| | Shareholdings registered in the name of Directors or their spouse/nominees where indicated* | | |
|---|---|---|---|
| | At beginning of year As adjusted[(1)] | At end of year | Balance as at 31 December 2014 As previously reported |
| **Company** | | Number of ordinary shares | |
| Neo Koon Boo | 12,098,147 | 12,098,147 | 48,392,590 |
| Tan Kim Sing | 9,671,205 | 9,671,205 | 38,684,820 |
| | 16,250* | 16,250* | 65,000* |
| Yap Mui Kee | 6,605,032 | 6,605,032 | 26,420,130 |
| Low Peng Kit | 3,750 | 3,750 | 15,000 |
| Tan Kok Hiang | 6,250 | 10,000 | 25,000 |
| Sally Yap Mei Yen | 67,500 | 88,800 | 270,000 |

* Held by Mdm Ng Siew Yeng, spouse of Mr Tan Kim Sing

(1) On 21 August 2015, the Company completed the consolidation of four existing shares into one consolidated share.

## 4. Directors' interests in shares or debentures (Continued)

By virtue of Section 7 of the Act, Mr Neo Koon Boo is deemed to have interests in the shares of all the subsidiaries of the Company at the beginning and at the end of the financial year. In accordance with the continuing listing requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors of the Company state that, according to the Register of the Directors' Shareholdings, the Directors' interests as at 21 January 2016 in the shares of the Company have not changed from those disclosed as at 31 December 2015.

## 5. Share options

There were no share options granted by the Company or its subsidiary corporations during the financial year.

There were no shares 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 or its subsidiary corporations under option as at the end of the financial year.

## 6. Audit Committee

The audit committee of the Company is chaired by Tan Kok Hiang, an independent Director, and includes Low Peng Kit and Dr. Wu Chiaw Ching, who are both independent Directors. The audit committee has met two times since the last Annual General Meeting (AGM) and has carried out its functions in accordance with section 201B(5), including reviewing the following, where relevant, with the executive Directors and external and internal auditors of the Company:

(a) the audit plans of the internal and external auditors and the results of the internal auditors' examination and evaluation of the Group's systems of internal accounting controls;

(b) assistance provided by the Company's officers to the internal and external auditors;

(c) consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company prior to their submission to the Directors of the Company and the external auditors' report on those financial statements;

(d) the half-yearly and annual announcements on the results and financial position of the Company and the Group;

(e) interested person transactions (as defined in Chapter 9 of the SGX Listing Manual); and

(f) the re-appointment of the external auditor of the Company.

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any Director or executive officer to attend its meetings. The internal and external auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the Board of Directors the nomination of BDO LLP, for re-appointment as external auditors of the Company at the forthcoming Annual General Meeting. The Audit Committee has carried out an annual review of non-audit services provided by the external auditors to satisfy itself that the nature and extend of such services will not prejudice the independence and objectivity of the external auditors.

## 7. Independent auditor

The independent auditor, BDO LLP, has expressed its willingness to accept re-appointment.

## 8. Additional disclosures requirements of the Listing Manual of the Singapore Exchange Securities Trading Limited

The auditors of the subsidiaries of the Company are disclosed in Note 6 to the financial statements. In the opinion of the Board of Directors and Audit Committee, Rule 715 of the Listing Manual of the Singapore Exchange Securities Trading Limited has been complied with.

On behalf of the Board of Directors

**Yap Mui Kee**
Executive Director

**Tan Kim Sing**
Executive Director

Singapore
29 March 2016

# Independent Auditors' Report

To The Members of LHT Holdings Limited

**Report on the Financial Statements**

We have audited the accompanying financial statements of LHT Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2015, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows of the Group and statement of changes in equity of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

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

**Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

**BDO LLP**
Public Accountants and
Chartered Accountants

Singapore
29 March 2016

# Statements of Financial Position

As at 31 December 2015

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| | | $'000 | $'000 | $'000 | $'000 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 4 | 20,871 | 22,198 | 10,460 | 11,368 |
| Investment property | 5 | 5,750 | 5,750 | 5,750 | 5,750 |
| Investments in subsidiaries | 6 | – | – | 13,951 | 13,951 |
| | | 26,621 | 27,948 | 30,161 | 31,069 |
| **Current assets** | | | | | |
| Inventories | 7 | 7,447 | 8,163 | 5,918 | 7,040 |
| Trade and other receivables | 8 | 10,715 | 11,681 | 11,616 | 11,663 |
| Cash and cash equivalents | 9 | 9,386 | 6,089 | 4,043 | 1,458 |
| | | 27,548 | 25,933 | 21,577 | 20,161 |
| Less: | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 10 | 5,252 | 5,085 | 6,142 | 5,948 |
| Borrowings | 11 | 1,481 | 1,413 | 1,119 | 1,101 |
| Income tax payables | | 593 | 536 | 387 | 436 |
| Deferred grants | 13 | – | – | – | – |
| | | 7,326 | 7,034 | 7,648 | 7,485 |
| **Net current assets** | | 20,222 | 18,899 | 13,929 | 12,676 |
| Less: | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 11 | 1,469 | 2,700 | 1,018 | 2,086 |
| Deferred tax liabilities | 14 | 1,253 | 1,205 | 495 | 563 |
| | | 2,722 | 3,905 | 1,513 | 2,649 |
| **Net assets** | | 44,121 | 42,942 | 42,577 | 41,096 |
| **Equity** | | | | | |
| Share capital | 15 | 24,621 | 24,621 | 24,621 | 24,621 |
| Currency translation reserve | 16 | (2,043) | (888) | – | – |
| Asset revaluation reserve | 17 | 1,376 | 1,376 | 1,376 | 1,376 |
| Retained earnings | | 20,167 | 17,833 | 16,580 | 15,099 |
| **Equity attributable to owners of the parent, representing total equity** | | 44,121 | 42,942 | 42,577 | 41,096 |

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

# Consolidated Income Statement

For The Financial Year Ended 31 December 2015

| | Note | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|---|
| **Revenue** | 18 | 51,832 | 48,006 |
| Cost of sales | | (38,868) | (36,428) |
| **Gross profit** | | 12,964 | 11,578 |
| ***Other item of income*** | | | |
| Other income | 19 | 3,898 | 4,113 |
| ***Other items of expenses*** | | | |
| Distribution expenses | | (2,242) | (1,984) |
| Administrative expenses | | (9,794) | (9,336) |
| Other expenses | | (68) | (531) |
| Finance costs | 20 | (95) | (114) |
| **Profit before income tax** | 21 | 4,663 | 3,726 |
| Income tax expense | 23 | (838) | (718) |
| **Profit for the year** | | 3,825 | 3,008 |
| **Profit attributable to:** | | | |
| Owners of the parent | | 3,825 | 3,008 |
| **Earnings per share attributable to owners of the parent (cents)** | | | |
| Basic and diluted | 24 | 7.18 | 5.65 |

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

# Consolidated Statement of Comprehensive Income

For The Financial Year Ended 31 December 2015

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Profit for the year** | 3,825 | 3,008 |
| **Other comprehensive income:** | | |
| Item that may be reclassified subsequently to profit or loss: | | |
| Translation differences relating to financial statements of foreign subsidiaries, net of tax amounting to $Nil (2014: $Nil) | (1,155) | (107) |
| **Total comprehensive income for the year** | 2,670 | 2,901 |
| **Total comprehensive income attributable to:** | | |
| Owners of the parent | 2,670 | 2,901 |

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

# Consolidated Statement of Changes in Equity

For The Financial Year Ended 31 December 2015

| | Note | <------------ Equity attributable to owners of the parent | | | | -------------> |
|---|---|---|---|---|---|---|
| | | Share Capital $'000 | Currency translation reserve $'000 | Asset revaluation reserve $'000 | Retained earnings $'000 | Total equity $'000 |
| **Group** | | | | | | |
| Balance at 1 January 2015 | | 24,621 | (888) | 1,376 | 17,833 | 42,942 |
| **Total comprehensive income for the year:** | | | | | | |
| Profit for the year | | – | – | – | 3,825 | 3,825 |
| Other comprehensive income: | | | | | | |
| Exchange differences on translating foreign subsidiaries | | – | (1,155) | – | – | (1,155) |
| Total comprehensive income for the year | | – | (1,155) | – | 3,825 | 2,670 |
| **Distribution to owners:** | | | | | | |
| Dividend | 27 | – | – | – | (1,491) | (1,491) |
| Balance at 31 December 2015 | | 24,621 | (2,043) | 1,376 | 20,167 | 44,121 |
| Balance at 1 January 2014 | | 24,621 | (781) | 1,376 | 15,890 | 41,106 |
| **Total comprehensive income for the year:** | | | | | | |
| Profit for the year | | – | – | – | 3,008 | 3,008 |
| Other comprehensive income: | | | | | | |
| Exchange differences on translating foreign subsidiaries | | – | (107) | – | – | (107) |
| Total comprehensive income for the year | | – | (107) | – | 3,008 | 2,901 |
| **Distribution to owners:** | | | | | | |
| Dividend | 27 | – | – | – | (1,065) | (1,065) |
| Balance at 31 December 2014 | | 24,621 | (888) | 1,376 | 17,833 | 42,942 |

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

# Statement of Changes in Equity

For The Financial Year Ended 31 December 2015

| | Note | Share Capital $'000 | Asset revaluation reserve $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| Balance at 1 January 2015 | | 24,621 | 1,376 | 15,099 | 41,096 |
| Profit for the year, representing total comprehensive income for the year | | – | – | 2,972 | 2,972 |
| **Distribution to owners:** | | | | | |
| Dividend | 27 | – | – | (1,491) | (1,491) |
| Balance at 31 December 2015 | | 24,621 | 1,376 | 16,580 | 42,577 |
| Balance at 1 January 2014 | | 24,621 | 1,376 | 13,136 | 39,133 |
| Profit for the year, representing total comprehensive income for the year | | – | – | 3,028 | 3,028 |
| **Distribution to owners:** | | | | | |
| Dividend | 27 | – | – | (1,065) | (1,065) |
| Balance at 31 December 2014 | | 24,621 | 1,376 | 15,099 | 41,096 |

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

# Consolidated Statement of Cash Flows

For The Financial Year Ended 31 December 2015

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before income tax | 4,663 | 3,726 |
| Adjustments for: | | |
| Amortisation of deferred grants | – | (29) |
| Allowance for doubtful trade receivables | – | 77 |
| Allowance for obsolete stock | 82 | – |
| Bad debt written off | – | 15 |
| Write back against bad debt allowance | (60) | – |
| Property, plant and equipment written off | 68 | 189 |
| Interest expense | 95 | 114 |
| Interest income | (11) | (13) |
| Depreciation of property, plant and equipment | 3,540 | 3,453 |
| Gain on disposal of property, plant and equipment | (22) | (74) |
| Fair value gain on investment property | – | (250) |
| Operating cash flows before movements in working capital | 8,355 | 7,208 |
| Changes in working capital: | | |
| Inventories | 634 | (1,864) |
| Trade and other receivables | 986 | (1,538) |
| Trade and other payables | 167 | 296 |
| Cash generated from operations | 10,142 | 4,102 |
| Interest received | 11 | 13 |
| Interest paid | (95) | (114) |
| Income taxes paid | (678) | (1,038) |
| **Net cash from operating activities** | 9,380 | 2,963 |
| **Investing activities** | | |
| Purchase of property, plant and equipment | (2,798) | (3,075) |
| Proceeds from disposal of property, plant and equipment | 26 | 98 |
| **Net cash used in investing activities** | (2,772) | (2,977) |
| **Financing activities** | | |
| Dividends paid | (1,491) | (1,065) |
| Pledge of fixed deposits | – | 16 |
| Repayment of term loans | (909) | (891) |
| Repayment of finance lease obligations | (461) | (409) |
| **Net cash used in financing activities** | (2,861) | (2,349) |
| Net change in cash and cash equivalents | 3,747 | (2,363) |
| Cash and cash equivalents at beginning of financial year | 5,915 | 8,313 |
| Net effect of exchange rate changes on the cash and cash equivalents held in foreign currencies | (447) | (35) |
| **Cash and cash equivalents at end of financial year (Note 9)** | 9,215 | 5,915 |

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

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

## 1. General corporate information

LHT Holdings Limited (the "Company") is a public limited company incorporated and domiciled in Singapore. The Company is listed on the mainboard of the Singapore Exchange Securities Trading Limited. The Company's registration number is 198003094E and its registered office and principal place of business is 27 Sungei Kadut Street 1, Singapore 729335.

The principal activities of the Company are those of manufacturing and trading of wooden pallets and timber related products. The principal activities of the subsidiaries are set out in Note 6 to the financial statements.

The statement of financial position of Company and the consolidated financial statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2015 were authorised for issue by the Board of Directors on 29 March 2016.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The financial statements have been drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards ("FRS") including related Interpretation of FRS ("INT FRS") and are prepared under the historical cost convention, except as disclosed in the accounting policies below.

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group, the statement of financial position and statement of changes in equity of the Company are presented in Singapore dollar ("$"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements and all values presented are rounded to the nearest thousand ("$'000") as indicated.

The preparation of financial statements in compliance with FRS requires management to make judgements, estimates and assumptions that affect the Group's application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. The areas where such judgements or estimates have the most significant effect on the financial statements are disclosed in Note 3.

In the current financial year, the Group has adopted all the new and revised FRS and INT FRS that are relevant to its operations and effective for the current financial year. The adoption of these new or revised FRS and INT FRS did not result in changes to the Group's accounting policies and has no material effect on the amounts reported for the current or prior financial years.

## 2. Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

FRS issued but not yet effective

At the date of authorisation of these financial statements, the following FRS that are relevant to the Group were issued but not yet effective, and have not been adopted early in these financial statements:

| | | | Effective date (annual periods beginning on or after) |
|---|---|---|---|
| FRS 1 (Amendments) | : | Disclosure Initiative | 1 January 2016 |
| FRS 16 and FRS 38 (Amendments) | : | Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| FRS 27 (Amendments) | : | Equity Method in Separate Financial Statements | 1 January 2016 |
| FRS 109 | : | Financial Instruments | 1 January 2018 |
| FRS 115 | : | Revenue from Contracts with Customers | 1 January 2018 |
| FRS 7 (Amendments) | : | Disclosure Initiative | 1 January 2017 |
| FRS 12 (Amendments) | : | Recognition to Deferred Tax Assets for Unrealised Losses | 1 January 2017 |
| Improvements to FRSs (November 2014) | | | 1 January 2016 |

Consequential amendments were also made to various standards as a result of these new/revised standards.

The management anticipates that the adoption of the above FRS in future periods, if applicable, will not have a material impact on the financial statements of the Group and the Company in the period of initial adoption, except as discussed below.

*FRS 109 Financial Instruments*

FRS 109 supersedes FRS 39 Financial Instruments: Recognition and Measurement with new requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Under FRS 109, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for certain equity investments, for which the Group will have a choice to recognise the gains and losses in other comprehensive income. A third measurement category has been added for debt instruments – fair value through other comprehensive income. This measurement category applies to debt instruments that meet the Solely Payments of Principal and Interest contractual cash flow characteristics test and where the Group is holding the debt instrument to both collect the contractual cash flows and to sell the financial assets.

## 2. Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

FRS issued but not yet effective (Continued)

*FRS 109 Financial Instruments (Continued)*

FRS 109 carries forward the recognition, classification and measurement requirements for financial liabilities from FRS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, FRS 109 retains the requirements in FRS 39 for de-recognition of financial assets and financial liabilities.

FRS 109 introduces a new forward-looking impairment model based on expected credit losses to replace the incurred loss model in FRS 39. This determines the recognition of impairment provisions as well as interest revenue. For financial assets at amortised cost or fair value through other comprehensive income, the Group will now always recognise (at a minimum) 12 months of expected losses in profit or loss. Lifetime expected losses will be recognised on these assets when there is a significant increase in credit risk after initial recognition.

FRS 109 also introduces a new hedge accounting model designed to allow entities to better reflect their risk management activities in their financial statements.

The Group plans to adopt FRS 109 in the financial year beginning on 1 January 2018 with retrospective effect in accordance with the transitional provisions. There may be a potentially significant impact on the accounting for financial instruments on initial adoption. The Group is in the process of making a detailed assessment of the impact of FRS 109. The Group will be required to reassess the classification and measurement of financial assets, and the new impairment requirements are expected to result in changes for impairment provisions on trade receivables and other financial assets not measured at fair value through profit or loss.

*FRS 115 Revenue from Contracts with Customers*

FRS 115 introduces a comprehensive model that applies to revenue from contracts with customers and supersedes all existing revenue recognition requirements under FRS. The model features a five-step analysis to determine whether, how much and when revenue is recognised, and two approaches for recognising revenue: at a point in time or over time. The core principle is that an entity recognises revenue when control over promised goods or services is transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FRS 115 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

On initial adoption of this standard there may be a potentially significant impact on the timing and profile of revenue recognition of the Group. The Group is in the process of making a detailed assessment of the impact of this standard on accounting for contract modifications. The Group plans to adopt the standard in the financial year beginning on 1 January 2018 with either full or modified retrospective effect in accordance with the transitional provisions, and will include the required additional disclosures in its financial statements for that financial year.

## 2. Summary of significant accounting policies (Continued)

### 2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities over which the Group has control. The Group controls an investee if the Group has power over the investee, exposure to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Subsidiaries are consolidated from the date on which control is obtained by the Group up to the effective date on which control is lost, as appropriate.

Intra-group balances and transactions and any unrealised gains arising from intra-group transactions are eliminated on consolidation. Unrealised losses may be an impairment indicator of the asset concerned.

The financial statements of the subsidiaries are prepared for the same financial year as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by other members of the Group.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

In the separate financial statements of the Company, investments in subsidiaries are carried at cost less any impairment loss that has been recognised in profit or loss.

### 2.3 Business combinations

Business combinations from 1 January 2010

The acquisition of subsidiaries is accounted for using the acquisition method. The consideration transferred for the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. Consideration also includes the fair value of any contingent consideration. Contingent consideration classified as a financial liability is remeasured subsequently to fair value through profit or loss.

## 2. Summary of significant accounting policies (Continued)

### 2.3 Business combinations (Continued)

Business combinations from 1 January 2010 (Continued)

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 *Income Taxes* and FRS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with FRS 102 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Goodwill arising on acquisition is recognised as an asset at the acquisition date and initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer previously held equity interest (if any) in the entity over net acquisition-date fair value amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

## 2. Summary of significant accounting policies (Continued)

### 2.3 Business combinations (Continued)

Business combinations before 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was probable and a reliable estimate was determinable. Subsequent measurements to the contingent consideration affected goodwill.

### 2.4 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Investment property is subject to renovations or improvements at regular intervals. The costs of major renovations and improvements are capitalised as addition and the carrying amounts of the replaced components are written off to profit or loss. The costs of maintenance, repairs and minor improvement are charged to profit or loss when incurred.

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

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, the property is accounted for in accordance with the accounting policy for property, plant and equipment of the Group up to the date of change in use, where the revaluation surpluses are taken to the asset revaluation reserve.

## 2. Summary of significant accounting policies (Continued)

### 2.5 Property, plant and equipment

All items of property, plant and equipment are initially recognised at cost. The cost includes its purchase price and any costs 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. Dismantlement, removal or restoration costs are included as part of the cost if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the property, plant and equipment.

Subsequent expenditure on an item of property, plant and equipment is added to the carrying amount of the item if it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other costs of servicing are recognised in profit or loss when incurred.

Plant and equipment are subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| | over the lease terms ranging from |
| Leasehold properties | 25 - 99 years |
| Plant and machinery | 5 - 20 years |
| Office furniture, fittings and equipment | 5 years |
| Motor vehicles and forklifts | 5 years |
| Rental pallets | 5 years |

No depreciation is charged on construction-in-progress as they are not yet in use as at the end of the financial year.

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

The estimated useful lives, residual values and depreciation methods are reviewed, and adjusted as appropriate, at the end of each financial year.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, if there is no certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 2. Summary of significant accounting policies (Continued)

### 2.6 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### 2.7 Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial instrument. Income and expense are recognised on an effective interest basis for debt instruments other than those financial instruments at fair value through profit or loss.

Financial assets

All financial assets are recognised on a trade date where the purchase of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

## 2. Summary of significant accounting policies (Continued)

### 2.7 Financial instruments (Continued)

Financial assets (Continued)

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose for which these financial assets were acquired and is determined at the time of initial recognition.

As at the end of the financial year, the Group and the Company only have financial assets classified as loans and receivables.

Loans and receivables

Trade and other receivables (excluding prepayments and tax recoverable) and cash and cash equivalents which have fixed or determinable payments that are not quoted in active market are classified as loans and receivables. Loans and receivables are measured at amortised cost, using the effective interest method less impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amounts of all financial assets are reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition, any difference between the carrying amount and the sum of proceeds received and amounts previously recognised in other comprehensive income is recognised in profit or loss.

**Financial liabilities and equity instruments**

Classification as debt or equity

Financial liabilities and equity instruments issued by Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

## 2. Summary of significant accounting policies (Continued)

### 2.7 Financial instruments (Continued)

**Financial liabilities and equity instruments (Continued)**

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs. The Group classifies ordinary shares as equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

As at the end of the financial year, the Group and the Company only have financial liabilities classified as other financial liabilities.

Other financial liabilities

*Trade and other payables*

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, where applicable, using the effective interest method, with interest expense recognised on an effective yield basis.

*Borrowings*

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Groups accounting policy for borrowing costs (see below).

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount and the consideration paid is recognised in profit or loss.

### 2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the "first-in, first-out" basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### 2.9 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, fixed deposits and bank balances net of deposits pledged.

## 2. Summary of significant accounting policies (Continued)

### 2.10 Provisions

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

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

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

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

### 2.11 Dividends

Equity dividends are recognised when they become legally payable. Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

### 2.12 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*Where the Group and the Company are the lessee*

Plant and equipment acquired through finance lease are capitalised as property, plant and equipment at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. The corresponding liability is included in the statements of financial position as a finance lease payables.

Lease payments are apportioned between finance charge and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.

Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

*Where the Group and the Company are the lessor*

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

## 2. Summary of significant accounting policies (Continued)

### 2.13 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rental income

Revenue from rental of pallets is recognised on a time proportion basis over the rental period.

Rental income from investment property is recognised on a straight-line basis over the term of the relevant lease.

Waste collection income

Waste collection income from waste wood collection is recognised when collection services are provided.

Service income

Heat treatment utilities income and other service income are recognised when services are provided.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### 2.14 Employee benefits

Retirement benefit costs

Payments to defined contribution plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution plan.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated undiscounted liability for annual leave expected to be settled wholly within 12 months from the reporting date as a result of services rendered by employees up to the end of the financial year.

## 2. Summary of significant accounting policies (Continued)

### 2.14 Employee benefits (Continued)

Key management personnel

Executive Directors of the Company and its subsidiaries and other management personnel having authority and responsibility for planning, directing and controlling the activities of the Group and its subsidiaries directly or indirectly are considered key management personnel.

### 2.15 Government grants

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

### 2.16 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction or development expenditures that are financed by general borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred using the effective interest method.

### 2.17 Taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the financial year. Taxable profit differs from profit reported as profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is recognised at the amount expected to be paid or recovered from the taxation authorities and is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and its subsidiaries operate by the end of the financial year.

Current income taxes are recognised in profit or loss, except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

## 2. Summary of significant accounting policies (Continued)

### 2.17 Taxes (Continued)

Deferred tax

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle its assets and liabilities, except for investment properties at fair value which are presumed to be recovered through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is recognised in profit or loss, except when it relates to items recognised outside profit or loss, in which case the tax is also recognised either in other comprehensive income or directly in equity, or where it arises from the initial accounting for a business combination. Deferred tax arising from a business combination, is taken into account in calculating goodwill on acquisition.

Sales tax

Revenue, expenses and assets are recognised net of the amount of sales tax except:

- when the sales tax that is incurred on purchase of assets or services is not recoverable from the tax authorities, in which case the sales tax is recognised as part of cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

## 2. Summary of significant accounting policies (Continued)

### 2.18 Foreign currency transactions and translation

In preparing the financial statements, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlements of monetary items, and on retranslation of monetary items are recognised in profit or loss for the financial year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are recognised in profit or loss for the financial year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Singapore dollar using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, are recognised initially in other comprehensive income and accumulated in the Group's currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to the currency translation reserve.

On disposal of a foreign operation, the accumulated currency translation reserve relating to that operation is reclassified to profit or loss.

### 2.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group of executive directors and the chief executive officer who make strategic decisions.

## 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's and the Company's accounting policies, which are described in Note 2, management made judgements, estimates and assumptions about the carrying amounts of assets and liabilities that were not readily apparent from other sources. The estimates and associated assumptions were based on historical experience and other factors that were considered to be reasonable under the circumstances. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

### 3.1 Critical judgements made in applying the accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's and the Company's accounting policies and which have a significant effect on the amounts recognised in the financial statements.

*(i) Impairment of investments in subsidiaries*

Management follows the guidance of FRS 36 Impairment of Assets, in determining whether investment in subsidiaries is impaired. This determination requires significant judgement. The Company evaluate, among other factors, the duration and extent to which the recoverable amount of an investment in subsidiary is less than its carrying amount, and the financial health of and near term business outlook for the investment, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Investment in subsidiaries are tested for impairment whenever there is objective evidence or indication that these assets may be impaired. The recoverable amounts of these assets and where applicable, cash generating unit have been determined based in value-in-use calculations.

The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value of these cash flows. These calculation require the use of judgements and estimates. The Company's carrying amount of investments in subsidiaries as at 31 December 2015 was approximately $13,951,000 (2014: $13,951,000).

*(ii) Impairment of property, plant and equipment*

Property, plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. The recoverable amounts of these assets and, where applicable, cash generating units (CGU) have been determined based on value-in-use calculations. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value of these cash flows. These calculation require the use of judgements and estimates.

### 3.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*(i) Depreciation of property, plant and equipment*

The Group and the Company depreciate the property, plant and equipment, using the straight-line method, over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the periods that the Group and the Company intend to derive future economic benefits from the use of the Group's and the Company's property, plant and equipment. The residual values reflect management's estimated amount that the Group and the Company would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset was already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges.

## 3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

### 3.2 Key sources of estimation uncertainty (Continued)

*(i) Depreciation of property, plant and equipment (Continued)*

The carrying amounts of the Group's and the Company's property, plant and equipment as at 31 December 2015 were approximately $20,871,000 (2014: $22,198,000) and $10,460,000 (2014: $11,368,000) respectively.

*(ii) Provision for inventory obsolescence*

Inventories are stated at the lower of cost and net realisable value. Cost is determined primarily using the "first-in, first-out" method. The management estimates the net realisable value of inventories based on assessment of receipt or committed sales prices and provide for excess and obsolete inventories based on historical and estimated future demand and related pricing. In determining excess quantities, the management considers recent sales activities, related margin and market positioning of the products. However, factors beyond its control, such as demand levels, technological advances and pricing competition, could change from period to period. Such factors may require the Group and the Company to reduce the value of their inventories. The carrying amounts of the Group's and the Company's inventories as at 31 December 2015 were approximately $7,447,000 (2014: $8,163,000) and $5,918,000 (2014: $7,040,000) respectively. The Group and the Company has recognised an allowance for obsolete stock of approximately $756,000 (2014: $674,000) and $726,000 (2014: $653,000) respectively.

*(iii) Allowance for trade and other receivables*

The allowance policy for doubtful debts of the Group and the Company is based on the ageing analysis and management's ongoing evaluation of the recoverability of the outstanding receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables including the assessment of the creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of the Group's and the Company's trade and other receivables (excluding prepayments and tax recoverable) as at 31 December 2015 were approximately $10,561,000 (2014: $11,440,000) and $11,594,000 (2014: $11,620,000) respectively.

*(iv) Income taxes*

The Group has exposure to income taxes in several jurisdictions of which a portion of these taxes arose from certain transactions and computations for which ultimate tax determination is uncertain during the ordinary course of business. The Group and the Company recognise liabilities of expected tax issues based on their best estimates of the likely taxes due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax positions in the period in which such determination is made. The carrying amounts of the Group's and Company's current tax payable as at 31 December 2015 were approximately $593,000 (2014: $536,000) and $387,000 (2014: $436,000) respectively. The carrying amounts of the Group's and Company's deferred tax liabilities as at 31 December 2015 were approximately $1,253,000 (2014: $1,205,000) and $495,000 (2014: $563,000) respectively.

## 3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

### 3.2 Key sources of estimation uncertainty (Continued)

*(v) Fair value measurement*

A number of assets and liabilities included in the Group's and Company's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's and Company's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group and Company disclose/measures a number of items at fair value on a recurring basis:

- Investment Property (Note 5 and 31.1)
- Finance lease payables (Note 31.2)
- Term loans (Note 31.2)

For more detailed information in relation to the fair value measurement of the items above including the carrying amounts and the estimation uncertainty involved, please refer to the respective notes.

## 4. Property, plant and equipment

| | Leasehold properties $'000 | Plant and machinery $'000 | Office furniture, fittings and equipment $'000 | Motor vehicles and forklifts $'000 | Rental pallets $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **2015** | | | | | | | |
| **Cost** | | | | | | | |
| Balance at 1 January 2015 | 15,610 | 22,656 | 3,668 | 1,925 | 8,620 | 793 | 53,272 |
| Additions | – | 1,132 | 172 | – | 1,685 | 16 | 3,005 |
| Disposals | – | (28) | – | – | (17) | – | (45) |
| Written-off | – | (1) | (2) | – | (598) | (9) | (610) |
| Transfers | – | – | 216 | – | – | (216) | – |
| Currency realignment | (128) | (454) | (43) | (13) | (494) | (5) | (1,137) |
| Balance at 31 December 2015 | 15,482 | 23,305 | 4,011 | 1,912 | 9,196 | 579 | 54,485 |
| **Accumulated depreciation** | | | | | | | |
| Balance at 1 January 2015 | 7,344 | 16,031 | 2,788 | 904 | 4,007 | – | 31,074 |
| Charge for the year | 750 | 1,048 | 142 | 282 | 1,318 | – | 3,540 |
| Disposals | – | (28) | – | – | (13) | – | (41) |
| Written-off | – | (1) | (1) | – | (540) | – | (542) |
| Currency realignment | (45) | (145) | (2) | (11) | (214) | – | (417) |
| Balance at 31 December 2015 | 8,049 | 16,905 | 2,927 | 1,175 | 4,558 | – | 33,614 |
| **Net carrying amount** | | | | | | | |
| Balance at 31 December 2015 | 7,433 | 6,400 | 1,084 | 737 | 4,638 | 579 | 20,871 |

## 4. Property, plant and equipment (Continued)

| | Leasehold properties $'000 | Plant and machinery $'000 | Office furniture, fittings and equipment $'000 | Motor vehicles and forklifts $'000 | Rental pallets $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **2014** | | | | | | | |
| **Cost** | | | | | | | |
| Balance at 1 January 2014 | 15,441 | 22,340 | 3,157 | 1,650 | 8,765 | 385 | 51,738 |
| Additions | 188 | 387 | 503 | 277 | 1,543 | 382 | 3,280 |
| Disposals | – | (5) | – | – | (247) | – | (252) |
| Written-off | – | – | (2) | – | (1,380) | – | (1,382) |
| Currency realignment | (19) | (66) | 10 | (2) | (61) | 26 | (112) |
| Balance at 31 December 2014 | 15,610 | 22,656 | 3,668 | 1,925 | 8,620 | 793 | 53,272 |
| **Accumulated depreciation** | | | | | | | |
| Balance at 1 January 2014 | 6,605 | 14,997 | 2,700 | 634 | 4,165 | – | 29,101 |
| Charge for the year | 746 | 1,055 | 93 | 272 | 1,287 | – | 3,453 |
| Disposals | – | (1) | – | – | (227) | – | (228) |
| Written-off | – | – | (1) | – | (1,192) | – | (1,193) |
| Currency realignment | (7) | (20) | (4) | (2) | (26) | – | (59) |
| Balance at 31 December 2014 | 7,344 | 16,031 | 2,788 | 904 | 4,007 | – | 31,074 |
| **Net carrying amount** | | | | | | | |
| Balance at 31 December 2014 | 8,266 | 6,625 | 880 | 1,021 | 4,613 | 793 | 22,198 |

## 4. Property, plant and equipment (Continued)

| | Leasehold properties | Plant and machinery | Office furniture, fittings and equipment | Motor vehicles and forklifts | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Company** | | | | | | |
| **2015** | | | | | | |
| **Cost** | | | | | | |
| Balance at 1 January 2015 | 14,637 | 16,409 | 2,578 | 1,110 | 593 | 35,327 |
| Additions | – | 688 | 31 | – | – | 719 |
| Transfers | – | – | 221 | – | (221) | – |
| Disposals | – | (28) | – | – | – | (28) |
| Written-off | – | (1) | (2) | – | (9) | (12) |
| Balance at 31 December 2015 | 14,637 | 17,068 | 2,828 | 1,110 | 363 | 36,006 |
| **Accumulated depreciation** | | | | | | |
| Balance at 1 January 2015 | 6,986 | 13,814 | 2,458 | 701 | – | 23,959 |
| Charge for the year | 733 | 627 | 57 | 200 | – | 1,617 |
| Disposals | – | (28) | – | – | – | (28) |
| Written-off | – | (1) | (1) | – | – | (2) |
| Balance at 31 December 2015 | 7,719 | 14,412 | 2,514 | 901 | – | 25,546 |
| **Net carrying amount** | | | | | | |
| Balance at 31 December 2015 | 6,918 | 2,656 | 314 | 209 | 363 | 10,460 |

| | Leasehold properties | Plant and machinery | Office furniture, fittings and equipment | Motor vehicles and forklifts | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Company** | | | | | | |
| **2014** | | | | | | |
| **Cost** | | | | | | |
| Balance at 1 January 2014 | 14,454 | 16,256 | 2,558 | 1,086 | 232 | 34,586 |
| Additions | 183 | 153 | 22 | 24 | 361 | 743 |
| Written-off | – | – | (2) | – | – | (2) |
| Balance at 31 December 2014 | 14,637 | 16,409 | 2,578 | 1,110 | 593 | 35,327 |
| **Accumulated depreciation** | | | | | | |
| Balance at 1 January 2014 | 6,259 | 13,222 | 2,414 | 491 | – | 22,386 |
| Charge for the year | 727 | 592 | 45 | 210 | – | 1,574 |
| Written-off | – | – | (1) | – | – | (1) |
| Balance at 31 December 2014 | 6,986 | 13,814 | 2,458 | 701 | – | 23,959 |
| **Net carrying amount** | | | | | | |
| Balance at 31 December 2014 | 7,651 | 2,595 | 120 | 409 | 593 | 11,368 |

## 4. Property, plant and equipment (Continued)

### 4.1 Assets under finance leases

The carrying amount of property, plant and equipment acquired under finance leases (Note 12) amounted to:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Motor vehicles and forklifts | 729 | 750 | 217 | 387 |
| Office furniture, fittings and equipment | 25 | 43 | – | – |
| Plant and machinery | 1,044 | 1,135 | – | – |
| | 1,798 | 1,928 | 217 | 387 |

### 4.2 Assets pledged as security to banks for banking facilities

The carrying amount of property, plant and equipment pledged to banks (Note 11) amounted to:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Leasehold properties | 7,400 | 8,186 | 6,919 | 7,651 |
| Plant and machinery | 2,415 | 2,316 | 2,415 | 2,316 |
| | 9,815 | 10,502 | 9,334 | 9,967 |

### 4.3 The details of the leasehold properties are:

| Location | Usage | Approximate land area | Tenure |
|---|---|---|---|
| 27 Sungei Kadut Street 1 Singapore 729335 | Manufacturing and trading wooden pallets and timber related products and administrative office | 28,287 sq m | 49 years expiring 2025 |
| 44 Sungei Kadut Street 1 Singapore 729349 | Storage of plant and machinery and flooring products | 17,639 sq m | 25 years expiring 2025 |
| Lot PTB 1237, Jalan Tun Matahir 1, Industries Area, Phase 2 Bandar Tenggara, 81000 Kulai, Johor Malaysia | Manufacturing wooden pallets and timber related products | 16,587 sq m | 60 years expiring 2052 |
| No. 4, Jalan Pinang Merah 20, Bandar Tenggara, 81000 Kulai, Johor Malaysia | Dormitory for employees | 721 sq m | 99 years expiring 2090 |

## 4. Property, plant and equipment (Continued)

### 4.3 The details of the leasehold properties are: (Continued)

| Location | Usage | Approximate land area | Tenure |
|---|---|---|---|
| No.6 Jalan Pinang Merah 20, Bandar Tenggara, 81000 Kulai, Johor Malaysia | Dormitory for employees | 726 sq m | 99 years expiring 2090 |
| No. 8, Jalan Pinang Merah 20, Bandar Tenggara 81000 Kulai, Johor Malaysia | Dormitory for employees | 753 sq m | 99 years expiring 2090 |

**4.4** The depreciation of property, plant and equipment is recognised in the following line items of consolidated income statement:

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Cost of sales | 1,784 | 1,817 |
| Administrative expenses | 1,756 | 1,636 |
| | 3,540 | 3,453 |

**4.5** During the financial year, the Group acquired property, plant and equipment by way of:

| | **2015** | **2014** |
|---|---|---|
| | **$'000** | **$'000** |
| Cash payments | 2,798 | 3,075 |
| Finance lease payables | 207 | 205 |
| | 3,005 | 3,280 |

**4.6** Included in the construction in progress were machineries awaiting for their assembly and installations in one of the subsidiary and an inventory management system being developed for the Company as at 31 December 2015 were approximately $216,000 (2014: $200,000) and $363,000 (2014: $593,000) respectively.

## 5. Investment property

| | Group and Company | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| **At fair value** | | |
| Balance at beginning of financial year | 5,750 | 5,500 |
| Fair value gain included in profit or loss | – | 250 |
| Balance at end of financial year | 5,750 | 5,750 |

## 5. Investment property (Continued)

The Group's and the Company's investment property was valued as at 31 December 2015 (2014: 31 December 2014) by Bernard Valuers, an independent professional valuation firm with recent experience in the location and category of the investment property held by the Group and the Company. Details of investment property, valuation techniques and inputs used disclosed in Note 31 to the financial statements.

As at the end of the reporting period, the investment property has been pledged for the banking facilities as set out in Note 11 to the financial statements.

The following amounts are recognised in profit or loss:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Rental and service income (Note 19) | 2,393 | 2,539 |
| Direct operating expenses (including repair and maintenance) arising from rental-generating investment property | (1,199) | (1,186) |

## 6. Investments in subsidiaries

| | Company | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Unquoted equity shares, at cost | 13,951 | 13,951 |

Details of the subsidiary companies as at 31 December 2015 are as follows:

| Name of Company (Country of incorporation and principal place of business) | Principal activities | Proportion of ownership interest held 2015 % | 2014 % |
|---|---|---|---|
| Kim Hiap Lee Company (Pte.) Limited [1] (Singapore) | Timber merchants, sawmillers and pallet rental | 100 | 100 |
| Lian Hup Packaging Industries Sdn. Bhd. [2] (Malaysia) | Dealers in wood products, pallets and packaging | 100 | 100 |
| Siri Belukar Packaging Sdn. Bhd. [2] (Malaysia) | Manufacturer, importer and exporter of wooden pallets and related products | 100 | 100 |
| LHT Marketing Pte Ltd [1] (Singapore) | Timber merchants and commission agents | 100 | 100 |
| LHT Ecotech Resources Pte Ltd [1] (Singapore) | Wood waste recycling and recovering | 100 | 100 |
| LHT Ecotech Resources (Tianjin) Co., Ltd [3] (People's Republic of China) | Wood waste recycling and recovering | 100 | 100 |
| LHT Gpac Technology (M) Sdn. Bhd. [2] (Malaysia) | Manufacturer, wood waste recycling, importer and exporter of green products and woodchips | 100 | 100 |

[1] Audited by BDO LLP, Singapore
[2] Audited by BDO, Malaysia
[3] Audited by Ruihua Certified Public Accountants, People's Republic of China

## 6. Investments in subsidiaries (Continued)

**Significant restriction**

Cash and bank balances of $836,000, equivalent to RMB3,930,000 (2014: $874,000, equivalent to RMB4,101,000) held with a subsidiary in the People's Republic of China are subject to local exchange control regulations. These regulations place restrictions on exporting capital out of the country other than through dividends and thus significantly affect the Group's ability to access or use assets, and settle liabilities, of the Group.

## 7. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Raw materials | 2,283 | 1,816 | 1,254 | 1,158 |
| Work-in-progress | 2,383 | 2,980 | 2,392 | 2,985 |
| Finished goods | 1,792 | 2,672 | 1,283 | 2,202 |
| Goods in transit | 989 | 695 | 989 | 695 |
| | 7,447 | 8,163 | 5,918 | 7,040 |

The cost of inventories recognised as an expense and included in "cost of sales" line item in profit or loss amounted to approximately $26,492,000 (2014: $23,596,000).

During the financial year, the Group and Company carried out a review of the realisable values of its inventories and the review led to the recognition of an allowance for inventory obsolescence of approximately $756,000 and $726,000 (2014: $674,000 and $653,000) respectively.

Arising from the review, the Group and Company recognise a charge of $82,000 (2014: $Nil) and $73,000 (2014: $Nil) respectively in the "cost of sales" in respect of the write-downs of inventories to net realisable value. A reversal of such write downs of approximately $Nil (2014: $146,000) and $Nil (2014: $121,000) by the Group and Company respectively was recognised in "other income". The reversals was a result of inventories being sold above its carrying amount in the prior financial year.

## 8. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables | | | | |
| - third parties | 10,001 | 10,581 | 7,847 | 8,472 |
| - subsidiaries | – | – | 2,351 | 1,367 |
| | 10,001 | 10,581 | 10,198 | 9,839 |
| Less: Allowance for doubtful trade receivables - third parties | (191) | (253) | (141) | (201) |
| | 9,810 | 10,328 | 10,057 | 9,638 |
| Other receivables | | | | |
| - third parties | 605 | 958 | 109 | 545 |
| - subsidiary | – | – | 1 ,400 | 1,400 |
| Deposits | 146 | 154 | 28 | 37 |
| Prepayments | 101 | 148 | 22 | 43 |
| Tax recoverable | 53 | 93 | – | – |
| Total trade and other receivables | 10,715 | 11,681 | 11,616 | 11,663 |
| Add: | | | | |
| - Cash and cash equivalents (Note 9) | 9,386 | 6,089 | 4,043 | 1,458 |
| Less: | | | | |
| - Prepayments | (101) | (148) | (22) | (43) |
| - Tax recoverable | (53) | (93) | - | - |
| Total loans and receivables | 19,947 | 17,529 | 15,637 | 13,078 |

Trade receivables from third parties and subsidiaries are non-interest bearing and repayable within the normal credit terms of 30 to 90 days (2014: 30 to 90 days).

The non-trade balances due from third parties and a subsidiary are unsecured, non-interest bearing and repayable on demand.

Movements in allowance for doubtful trade receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at beginning of financial year | 253 | 602 | 201 | 518 |
| Write off against allowance | (2) | (426) | – | (392) |
| Write back against allowance | (60) | – | (60) | – |
| Charge for the year | – | 77 | – | 75 |
| Balance at end of financial year | 191 | 253 | 141 | 201 |

## 8. Trade and other receivables (Continued)

Allowances made in respect of estimated irrecoverable amounts are determined by reference to past default experience. The carrying amount of trade receivables individually determined to be impaired is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Past due for more than 60 days | 191 | 253 | 141 | 201 |

The aging analysis of the trade receivables are set out in Note 29 to the financial statements.

Trade and other receivables are denominated in the following currencies:-

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Singapore dollar | 6,823 | 9,535 | 7,808 | 10,799 |
| Ringgit Malaysia | 862 | 770 | 1,189 | 6 |
| Renminbi | 423 | 453 | 2 | 2 |
| United States dollar | 2,519 | 378 | 2,529 | 311 |
| Euro | 88 | 545 | 88 | 545 |
| | 10,715 | 11,681 | 11,616 | 11,663 |

## 9. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Fixed deposits | 171 | 174 | – | – |
| Cash and bank balances | 9,215 | 5,915 | 4,043 | 1,458 |
| | 9,386 | 6,089 | 4,043 | 1,458 |

The fixed deposits are pledged to a bank as security for credit facilities granted to the Group. The fixed deposits bear interest rate of 3.05% (2014: 3.05%) per annum with maturity of 1 month (2014: 1 month) from the end of the reporting period.

## 9. Cash and cash equivalents (Continued)

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at the end of the reporting period:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Fixed deposits | 171 | 174 |
| Cash and bank balances | 9,215 | 5,915 |
| | 9,386 | 6,089 |
| Fixed deposits pledged with banks | (171) | (174) |
| | 9,215 | 5,915 |

Cash and cash equivalents are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 |
| Singapore dollar | 5,067 | 2,806 | 2,907 | 1,116 |
| Ringgit Malaysia | 2,256 | 2,033 | 9 | 13 |
| United States dollar | 1,509 | 640 | 1,095 | 297 |
| Renminbi | 554 | 610 | 32 | 32 |
| | 9,386 | 6,089 | 4,043 | 1,458 |

## 10. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 |
| Trade payables | | | | |
| - third parties | 2,879 | 2,526 | 2,019 | 1,817 |
| - subsidiaries | – | – | 2,300 | 2,256 |
| - related parties | 185 | 312 | 185 | 312 |
| | 3,064 | 2,838 | 4,504 | 4,385 |
| Accrued expenses | 1,396 | 1,462 | 1,110 | 1,107 |
| Deposits received | 471 | 442 | 436 | 415 |
| Sundry payables | 321 | 343 | 92 | 41 |
| Total trade and other payables | 5,252 | 5,085 | 6,142 | 5,948 |
| Add: | | | | |
| - Borrowings (Note 11) | 2,950 | 4,113 | 2,137 | 3,187 |
| Total financial liabilities carried at amortised cost | 8,202 | 9,198 | 8,279 | 9,135 |

The trade amounts due to third parties, subsidiaries and related parties are unsecured, interest-free and repayable within the normal credit term of 30 to 90 days (2014: 30 to 90 days).

No interest is charged on the trade and other payables.

## 10. Trade and other payables (Continued)

Trade and other payables are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Singapore dollar | 3,275 | 3,587 | 5,334 | 5,526 |
| Ringgit Malaysia | 1,527 | 1,002 | 666 | 68 |
| United States dollar | 148 | 378 | 137 | 354 |
| Reminbi | 297 | 117 | – | – |
| Euro | 5 | 1 | 5 | – |
| | 5,252 | 5,085 | 6,142 | 5,948 |

## 11. Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Finance lease payables (Note 12) | 976 | 1,230 | 163 | 304 |
| Term loan I, secured | 588 | 901 | 588 | 901 |
| Term loan II, secured | 1,386 | 1,982 | 1,386 | 1,982 |
| Total | 2,950 | 4,113 | 2,137 | 3,187 |
| Less: | | | | |
| Amount due for settlement within 12 months | (1,481) | (1,413) | (1,119) | (1,101) |
| Amount due for settlement after 12 months | 1,469 | 2,700 | 1,018 | 2,086 |

The term loans are secured by the joint first legal mortgage over certain leasehold and investment properties (Note 4 and Note 5) and fixed charge on certain plant and machinery (Note 4.2).

The term loan I are repayable over a maximum period of 7 years from the commencement date in July 2011 and bear effective interest rates ranging from 2.41% to 3.07% (2014: 2.39% to 2.41%) per annum. The interest rates are re-priced quarterly.

The term loan II are repayable over a maximum period of 5 years from the commencement date in April 2013 and bear effective interest rates ranging from 1.93% to 2.51% (2014: 1.90% to 1.91% ) per annum. The interest rates are re-priced quarterly.

The fair values of the Group's and the Company's borrowings are disclosed in Note 31.2 to the financial statements.

The borrowings are denominated in Singapore dollar.

## 12. Finance lease payables

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Minimum lease payment $'000 | Present value of payment $'000 | Minimum lease payment $'000 | Present value of payment $'000 |
| **Group** | | | | |
| Payable under finance leases:- | | | | |
| - Within one financial year | 527 | 502 | 488 | 453 |
| - After one financial year but within five financial years | 490 | 474 | 804 | 777 |
| | 1,017 | 976 | 1,292 | 1,230 |
| Less: future finance charges | (41) | – | (62) | – |
| Present value of lease obligations | 976 | 976 | 1,230 | 1,230 |
| **Company** | | | | |
| Payable under finance leases:- | | | | |
| - Within one financial year | 144 | 141 | 150 | 141 |
| - After one financial year but within five financial years | 23 | 22 | 167 | 163 |
| | 167 | 163 | 317 | 304 |
| Less: future finance charges | (4) | – | (13) | – |
| Present value of lease obligations | 163 | 163 | 304 | 304 |

The lease terms range from 4 to 7 years (2014: 5 to 7 years). The weighted average effective borrowing rate for the Group and the Company are 3.29% (2014: 3.46%) and 3.83% (2014: 3.86%) per annum respectively. Interest rates are fixed at the contract date, and thus expose the Group and the Company to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The carrying amount of assets acquired under finance leases is disclosed in Note 4.1 to the financial statements.

The fair values of the Group's and the Company's lease obligations are disclosed in Note 31.2 to the financial statements.

The Group's and the Company's obligations under finance leases are secured by the leased assets, which will revert to the lessors in the event of default by the Group and the Company.

## 13. Deferred grants

| | Group | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Balance at beginning of financial year | – | 29 |
| Amortisation for the financial year | – | (29) |
| Balance at end of financial year | – | – |

The above relates to deferred grants for investment in machinery and equipment which ceased in the prior financial year.

## 14. Deferred tax

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Deferred tax liabilities | 1,253 | 1,205 | 495 | 563 |

The movement for the year in deferred tax position is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at beginning of financial year | 1,205 | 1,319 | 563 | 759 |
| (Credit)/Charge to profit or loss (Note 23) | 66 | (114) | (68) | (196) |
| Exchange translation difference | (18) | – | – | – |
| Balance at end of financial year | 1,253 | 1,205 | 495 | 563 |

The following are the major deferred tax liabilities recognised by the Group and the Company and movements thereon during the year.

### 14.1 Deferred tax liabilities

| | Accelerated tax depreciation $'000 | Revaluation of building $'000 | Allowance for obsolete stock $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| At 1 January 2015 | (1,038) | (302) | 111 | 24 | (1,205) |
| Credit /(Charge) to profit or loss | (297) | – | 12 | 2 | (283) |
| Effect of previously unrecognised and unused tax losses now recognised and offset against deferred tax liabilities | 64 | – | – | 153 | 217 |
| Exchange translation difference | 18 | – | – | – | 18 |
| At 31 December 2015 | (1,253) | (302) | 123 | 179 | (1,253) |
| At 1 January 2014 | (1,180) | (302) | 142 | 21 | (1,319) |
| Credit /(Charge) to profit or loss | 142 | – | (31) | 3 | 114 |
| At 31 December 2014 | (1,038) | (302) | 111 | 24 | (1,205) |
| **Company** | | | | | |
| At 1 January 2015 | (396) | (302) | 111 | 24 | (563) |
| Credit /(Charge) to profit or loss | 54 | – | – | 14 | 68 |
| At 31 December 2015 | (342) | (302) | 111 | 38 | (495) |
| At 1 January 2014 | (606) | (302) | 128 | 21 | (759) |
| Credit /(Charge) to profit or loss | 210 | – | (17) | 3 | 196 |
| At 31 December 2014 | (396) | (302) | 111 | 24 | (563) |

## 14. Deferred tax (Continued)

### 14.1 Deferred tax liabilities (Continued)

At the end of the financial year, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries $8,135,000 (2014: $7,122,000) for which deferred tax liabilities have not been recognised is $1,721,000 (2014: $1,479,000). No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

### 14.2 Deferred tax assets

Movements in unrecognised deferred tax assets are as follows:

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| At beginning of financial year | 586 | 234 |
| Effect of previously unrecognised and unused tax losses now recognised and offset against deferred tax liabilities (Note 14.1) | (217) | – |
| Utilisation of prior year deferred tax assets not recognised | (27) | – |
| Amount not recognised during financial year | 55 | 367 |
| Adjustment resulting from changes in temporary differences | (142) | (15) |
| At end of financial year | 255 | 586 |

Deferred tax assets not recognised related to the following:-

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Unutilised capital allowances | – | 126 |
| Unutilised tax losses | 255 | 450 |
| Other temporarily differences | – | 10 |
| | 255 | 586 |

The deferred tax assets have not been recognised because it is not certain that whether future taxable profit will be available against which a subsidiary can utilise the benefits.

As at 31 December 2015, the Group has unutilised capital allowances and tax losses of approximately $Nil (2014: $504,000) and $1,032,000 (2014: $1,801,000) respectively available for set-off against future taxable profits subject to agreement with the relevant tax authorities and compliance with certain provision of the tax legislation of the country in which the subsidiary operates.

The unutilised tax losses of a subsidiary in the jurisdiction of the People's Republic of China amounts to approximately $928,000 (2014: $775,000 ) and can only be utilised for set-off against its future taxable profits within five years from the date the tax losses were incurred.

## 14. Deferred tax (Continued)

### 14.2 Deferred tax assets (Continued)

The unrecognised tax losses will expire as follows:-

| | Group 2015 $'000 | Group 2014 $'000 |
|---|---|---|
| Year 2018 | 365 | 365 |
| Year 2019 | 410 | 410 |
| Year 2020 | 153 | – |
| | 928 | 775 |

## 15. Share capital

| | Group and Company 2015 Number of ordinary shares ('000) | Group and Company 2014 Number of ordinary shares ('000) | Group and Company 2015 $'000 | Group and Company 2014 $'000 |
|---|---|---|---|---|
| **Issued and fully paid:** | | | | |
| Beginning and end of financial year | 212,980 | 212,980 | 24,621 | 24,621 |
| Share consolidation | (159,735) | – | – | – |
| End of financial year | 53,245 | 212,980 | 24,621 | 24,621 |

The ordinary shares have no par value, carry one vote per share without restrictions and their holders are entitled to receive dividends when declared by the Company.

On 21 August 2015, the Company has completed a share consolidation to consolidate every four ordinary shares in the capital of the Company held by shareholders into one ordinary share, so as to comply with the Minimum Trading Price ("MTP") requirement as implemented by the SGX-ST as an additional continuing listing requirement. The issued share capital as at 31 December 2015 comprises 53,244,997 consolidated shares after disregarding any fractions of consolidated shares arising from the share consolidation exercise.

## 16. Currency translation reserve

The currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations where functional currencies are different from that of the Group's presentation currency.

## 17. Asset revaluation reserve

The asset revaluation reserve represents increases in the fair value of leasehold properties, net of tax, and prior to the change in use from owner-occupied to investment property.

## 18. Revenue

| | Group | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| Sale of goods | 47,519 | 43,791 |
| Pallet rental | 4,313 | 4,215 |
| | 51,832 | 48,006 |

## 19. Other income

| | Group | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| Amortisation of deferred grants | – | 29 |
| Gain on disposal of property, plant and equipment | 22 | 74 |
| Fair value gain on investment property | – | 250 |
| Government grants | | |
| - Special Employment Credit | 79 | 74 |
| - Others government grants | 311 | 323 |
| Heat treatment and utilities income | 138 | 140 |
| Interest income | 11 | 13 |
| Rental and service income | 2,393 | 2,539 |
| Allowance for doubtful trade receivables written back | 60 | – |
| Waste collection income | 264 | 318 |
| Obsolete stock written back | – | 146 |
| Foreign exchange gain, net | 150 | – |
| Sundry income | 141 | 37 |
| Others | 329 | 170 |
| | 3,898 | 4,113 |

## 20. Finance costs

| | Group | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| Interest expense in respect of:- | | |
| Finance leases | 36 | 46 |
| Bank loan | 59 | 68 |
| | 95 | 114 |

## 21. Profit before income tax

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, the above includes the following charges:-

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| *Cost of sales* | | |
| Cost of inventories included in cost of sales | 26,492 | 23,596 |
| Employee benefits expenses (Note 22) | 4,855 | 4,804 |
| Repair and maintenance expenses | 1,746 | 1,758 |
| Utilities expenses | 1,063 | 1,351 |
| Depreciation of property, plant and equipment | 1,784 | 1,817 |
| *Distribution expenses* | | |
| Transportation and carriage expenses | 2,242 | 1,863 |
| *Administrative expenses* | | |
| Audit fees paid to the auditors: | | |
| - Auditors of the Company | 93 | 90 |
| - Other auditors | 26 | 11 |
| Non-audit fees paid to auditors of the Company | | |
| - Auditors of the Company | 46 | 23 |
| - Other auditors | 15 | 21 |
| Depreciation of property, plant and equipment | 1,756 | 1,636 |
| Directors' fees | | |
| - Directors of the Company* | 206 | 213 |
| Employee benefits expenses (Note 22) | 4,087 | 3,722 |
| Insurance | 351 | 314 |
| Property tax | 430 | 288 |
| Operating lease expenses | 1,070 | 989 |
| *Other expenses* | | |
| Allowance for doubtful trade receivables | – | 77 |
| Bad debt written off | – | 15 |
| Foreign exchange loss, net | – | 243 |
| Property, plant and equipment written off | 68 | 189 |

* Included in the Directors' fees are fees declared by the subsidiaries to the Directors in their capacity as Directors of those subsidiaries of $71,255 (2014: $78,000).

## 22. Employee benefits expenses

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Salaries, wages and other costs | 8,397 | 8,023 |
| Defined contribution plans | 545 | 503 |
| | 8,942 | 8,526 |

The employee benefits expenses are recognised in the following line items of consolidated income statement:

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Cost of sales | 4,855 | 4,804 |
| Administrative expenses | 4,087 | 3,722 |
| | 8,942 | 8,526 |

The employee benefits expenses include compensation of key management personnel as disclosed in Note 26 to the financial statements.

## 23. Income tax expense

| | Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Based on results for the financial year:- | | |
| - current income tax | 764 | 793 |
| - deferred tax | 41 | (4) |
| | 805 | 789 |
| (Over)/under provision in prior years | | |
| - current income tax | 8 | 39 |
| - deferred tax | 25 | (110) |
| | 33 | (71) |
| Total income tax expenses | 838 | 718 |

Domestic income tax is calculated at 17% (2014: 17%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 23. Income tax expense (Continued)

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

**Reconciliation of effective tax rate**

| | Group | |
|---|---|---|
| | **2015** **$'000** | **2014** **$'000** |
| Profit before income tax | 4,663 | 3,726 |
| Tax based on Singapore statutory tax rate | 793 | 633 |
| Tax effect of : | | |
| - Different tax rates in another countries | 78 | (45) |
| - Non-taxable income | – | (44) |
| - Non-deductible expenses | 138 | 85 |
| - Tax incentive | (237) | (205) |
| Under provision of income tax in prior years | 8 | 39 |
| Utilisation of prior year deferred tax assets not recognised | (27) | – |
| Under/(over) provision of deferred tax in prior years | 25 | (110) |
| Deferred tax assets not recognised | 55 | 367 |
| Others | 5 | (2) |
| | 838 | 718 |

## 24. Earnings per share

The calculation for earnings per share is based on:

| | Group | | |
|---|---|---|---|
| | **2015** | **2014 As adjusted[(a)]** | **2014 As previously reported** |
| Profit after income tax attributable to owners of the parent (S$'000) | 3,825 | 3,008 | 3,008 |
| Actual number of ordinary shares in issue during the financial year applicable to basic earnings per share ('000) | 53,245 | 53,245 | 212,980 |
| Earnings per shares (in cents) | | | |
| - Basic | 7.18 | 5.65 | 1.41 |
| - Diluted | 7.18 | 5.65 | 1.41 |

(a) Comparative figures for earnings per share have been adjusted for the share consolidation exercise to consolidate every 4 ordinary shares into 1 ordinary share.

Basic earnings per share is calculated by dividing the net profit for the financial year attributable to owners of the parent by the actual number of ordinary shares in issue during the financial year. As the Group has no dilutive potential ordinary shares, the diluted earnings per share is equivalent to basic earnings per share for the financial year.

## 25. Commitments

### 25.1 Operating lease commitments

*Where the Group and Company are lessee*

The Group leases leasehold land from non-related parties under non-cancellable operating lease agreements. As at the end of the reporting period, there were operating lease commitments for rental payable in subsequent accounting periods as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015<br>$'000 | 2014<br>$'000 | 2015<br>$'000 | 2014<br>$'000 |
| Not later than one year | 1,546 | 1,558 | 1,454 | 1,431 |
| Later than one year but not later than five years | 5,500 | 5,234 | 5,440 | 5,154 |
| Later than five years | 5,863 | 6,831 | 5,863 | 6,831 |
| | 12,909 | 13,623 | 12,757 | 13,416 |

The above operating lease commitments are based on existing rental rates. Rental are fixed for an average of 1 to 3 years. The lease agreements provide for periodic revision of rental rates in the future.

*Where the Group and Company are lessor*

The Group and Company lease out its investment property to non-related parties under non-cancellable operating leases with remaining lease terms of between 1 to 3 years. The lessees have the option to renew for another one year at market rate subject to agreement by both parties.

As at the end of the reporting period, the Group and Company have the following minimum lease receivables under non-cancellable operating leases:

| | Group and Company | |
|---|---|---|
| | 2015<br>$'000 | 2014<br>$'000 |
| Not later than one year | 1,066 | 1,375 |
| Later than one year but not later than five years | 366 | 1,213 |
| | 1,432 | 2,588 |

### 25.2 Capital commitments

As at 31 December 2015, the Group and the Company has a capital commitment of approximately $301,000 (2014: $123,000) in relation to the purchase of plant and equipment for production purposes.

## 26. Significant related party transactions

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

(i) Has control or joint control over the Company;

(ii) Has significant influence over the Company; or

(iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

(vi) The entity is controlled or jointly controlled by a person identified in (a); or

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

During the financial year, in addition to those disclosed elsewhere in these financial statements, the Group entities and the Company entered into the following transactions with related parties at rates and terms agreed between the parties:

| | Company | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Subsidiaries: | | |
| - Trade sales | 2,930 | 3,409 |
| - Trade purchases | 12,104 | 11,277 |
| - Pallet repair income | 825 | 806 |
| - Advances to | – | 900 |
| - Payment on behalf of | 769 | 617 |
| - Management fee charged from | 96 | 96 |
| - Service rendered by | 212 | 161 |
| - Dividend received | 1,005 | 510 |

## 26. Significant related party transactions (Continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 |
| Related parties: | | | | |
| - Transport charges | 1,094 | 1,065 | 1,094 | 1,065 |
| - Printing expenses | 17 | 19 | 17 | 19 |
| Director-related employees' remuneration | 821 | 781 | 673 | 631 |

Related parties are the companies whose equity shareholders are related to the Company's directors.

The director-related employees' remuneration include compensation of key compensation of management personnel as disclosed below.

**Compensation of key management personnel**

| | Group | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| Short-term employee benefits | 1,300 | 1,130 |
| Post-employment benefits | 89 | 74 |
| Directors' fees | | |
| - Directors of the Company | 206 | 213 |
| | 1,595 | 1,417 |
| Comprise amounts paid to : | | |
| Directors of the Group | 1,076 | 933 |
| Director-related employees | 158 | 152 |
| Other key management executives | 361 | 332 |
| | 1,595 | 1,417 |

The remuneration of key management personnel are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

## 27. Dividend

| | Group and Company | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| First and final one-tier tax-exempt dividend paid of $0.007 (2014: $0.005) per ordinary share in respect of the previous financial year before share consolidation | 1,491 | 1,065 |

The Directors of the Company recommend a first and final one-tier tax-exempt dividend of $0.03 per ordinary share amounting to approximately $1,597,000 to be paid in respect of the current financial year. This first and final dividend has not been recognised as a liability as at year end as it is subject to approval at the forthcoming Annual General Meeting of the Company.

## 28. Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker (Note 2.19).

The Group's operating businesses are organised and managed into 4 main operating segments, namely pallet/packaging, timber related products, Technical Wood® products and pallet rental and other services segments. The pallets/packaging segment is mainly engaged in the manufacture and supply of wooden pallets and cases for the packing of industrial products. The timber related products segment is mainly engaged in the trading of raw timber related products. The Technical Wood® products segment is mainly engaged in the manufacture of Technical Wood®, Technical Wood® flooring and wood waste collection. The pallet rental and other services segment are mainly engaged in pallet-leasing business.

Management monitors the operating results of the segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operation profit or loss which is similar to the accounting profit or loss.

Income taxes and term loans are managed by the management on a Group basis.

The accounting policies of the operating segments are the same of those described in the summary of significant accounting policies. There is no asymmetrical allocation to reportable segments. Management evaluates performance on the basis of profit or loss from operation before income tax expense not including non-recurring gains and losses.

There is no change from prior periods in the measurement methods used to determine reported segment profit or loss.

Inter-segment sales and transfers are carried out on arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total costs incurred during the financial year to acquire segment assets that are expected to be used for more than one financial year.

## 28. Segment information (Continued)

### 28.1 Business segments

| | Pallet/ packaging | | Timber related products | | Technical Wood® products | | Pallet rental and other services | | Elimination | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 |
| Segment revenue | | | | | | | | | | | | |
| Sales to external customers | 42,421 | 38,136 | 3,247 | 3,522 | 1,851 | 2,133 | 4,313 | 4,215 | – | – | 51,832 | 48,006 |
| Inter-segment sales | 14,108 | 12,570 | 1,085 | 1,150 | 995 | 1,258 | 9 | 8 | (16,197) | (14,986) | – | – |
| Total revenue | 56,529 | 50,706 | 4,332 | 4,672 | 2,846 | 3,391 | 4,322 | 4,223 | (16,197) | (14,986) | 51,832 | 48,006 |
| Segment results | 3,951 | 1,237 | 310 | 1,743 | 491 | 1,001 | 954 | 348 | (948) | (489) | 4,758 | 3,840 |
| Finance costs | | | | | | | | | | | (95) | (114) |
| Profit before income tax | | | | | | | | | | | 4,663 | 3,726 |
| Income tax expense | | | | | | | | | | | (838) | (718) |
| Profit for the year | | | | | | | | | | | 3,825 | 3,008 |
| Segment assets | 23,455 | 29,300 | 1,726 | 1,613 | 8,764 | 8,728 | 27,887 | 21,730 | (7,716) | (7,583) | 54,116 | 53,788 |
| Unallocated assets | | | | | | | | | | | 53 | 93 |
| Total assets | | | | | | | | | | | 54,169 | 53,881 |
| Segment liabilities | 10,087 | 9,686 | – | – | 1,781 | 2,000 | 730 | 810 | (6,370) | (6,181) | 6,228 | 6,315 |
| Unallocated liabilities | | | | | | | | | | | 3,820 | 4,624 |
| Total liabilities | | | | | | | | | | | 10,048 | 10,939 |
| **Other segment information** | | | | | | | | | | | | |
| Capital expenditures | 825 | 1,081 | – | – | 494 | 457 | 1,702 | 1,769 | (16) | (27) | 3,005 | 3,280 |
| Depreciation | 1,059 | 1,054 | – | – | 881 | 790 | 1,644 | 1,652 | (44) | (43) | 3,540 | 3,453 |
| Gain on disposal of property, plant and equipment | – | – | – | – | – | – | (22) | (74) | – | – | (22) | (74) |
| Write down/ (Reversal) of allowance for obsolete stock | 19 | – | – | (146) | 59 | – | 4 | – | – | – | 82 | (146) |
| Fair value gain on investment property | – | – | – | – | – | – | – | (250) | – | – | – | (250) |
| Amortisation of grant | – | – | – | – | – | – | – | (29) | – | – | – | (29) |

## 28. Segment information (Continued)

### 28.2 Geographical information

**Revenue from external customers**

| | Singapore | | Malaysia | | China | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 |
| Revenue to external customers | 49,970 | 43,418 | 1,740 | 4,588 | 122 | – | 51,832 | 48,006 |

The revenue information above is based on the location of the customers.

**Location of non-current assets**

| | Singapore | | Malaysia | | China | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 |
| Non-current assets | 21,425 | 22,289 | 4,498 | 4,948 | 698 | 711 | 26,621 | 27,948 |

Non-current assets consist of property, plant and equipment and investment property as presented in the statements of financial position of the Group.

### 28.3 Major customer

For the financial year ended 31 December 2015, the revenue from 1 major customer of the Group contributed approximately $9,959,000 or 19% of the total revenue which derived from pallets or packaging segment pertaining from Singapore.

For the financial year ended 31 December 2014, the revenue from 1 major customer of the Group contributed approximately $5,083,000 or 11% of the total revenue which derived from pallets or packaging segment pertaining from Singapore.

## 29. Financial instruments and financial risk

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

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

There has been no change to the Group's and the Company's exposure to these financial risks or the manner in which they manage and measure the risk.

## 29. Financial instruments and financial risk (Continued)

### 29.1 Credit risks

Credit risk refers to the risk that counterparty will default on its obligations resulting in a loss to the Group. The Group's and Company's major classes of financial assets are cash and cash equivalents, trade and other receivables. As the Group and the Company do 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 instrument presented on the balance sheet.

The Group and the Company monitor the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. Cash terms, advance payments, or letters of credit are required for customers of lower credit standing.

The Group and the Company do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics which is in excess of the 5% (2014: 5%) of the total trade and other receivables, except for a receivable from a third party which accounts for 21% (2014: 17%) and 19% (2014: 17%) of the Group's and the Company's total trade and other receivable respectively, as at the end of the reporting period. The Group defines counterparties as having similar characteristics if they are related entities.

*(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 and other financial assets that are neither past due nor impaired are substantially credit worthy companies with a good collection track record with the Group.

*(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 | | Company | |
|---|---|---|---|---|
| | **2015 $'000** | **2014 $'000** | **2015 $'000** | **2014 $'000** |
| Not past due | 5,939 | 4,182 | 8,714 | 5,006 |
| Past due 1 to 30 days | 1,461 | 3,118 | 826 | 2,348 |
| Past due 31 to 60 days | 799 | 1,491 | 274 | 1,079 |
| Past due for more than 60 days | 1,802 | 1,790 | 384 | 1,406 |
| | 10,001 | 10,581 | 10,198 | 9,839 |
| Less: Allowance for doubtful debt – past due for more than 60 days | (191) | (253) | (141) | (201) |
| | 9,810 | 10,328 | 10,057 | 9,638 |

## 29. Financial instruments and financial risk (Continued)

### 29.2 Market risks

The Group's and the Company's activities are affected by various financial risks, including the effects of changes in foreign currency exchange rates and interest rates as described in the following paragraphs. The policies for managing each of these risks are summarised below.

*(i) Foreign currency risk*

The Group and the Company transact business in various foreign currencies and is mainly exposed to foreign currency risks in relation to United States dollar ("USD") and Ringgit Malaysia ("RM"). The Group and the Company do not use derivative financial instruments to hedge its foreign currency risk.

The carrying amounts of the Group's and Company's foreign currency denominated monetary assets and monetary liabilities other than the respective entities' functional currencies at the end of the reporting period are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| **Monetary assets** | | | | |
| RM | 17 | 19 | 1,198 | 19 |
| USD | 4,028 | 1,018 | 3,624 | 608 |
| RMB | 34 | 31 | 34 | 34 |
| Euro | 88 | 545 | 88 | 545 |
| **Monetary liabilities** | | | | |
| RM | 427 | 114 | 666 | 68 |
| USD | 148 | 378 | 137 | 354 |
| Euro | 5 | 1 | 5 | – |

*Foreign currency sensitivity analysis*

The following table details the Group's and the Company's sensitivity to a 10% (2014: 3%) change in USD and RM against the functional currencies of the entities within the Group. The 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the possible change in foreign exchange rates. The sensitivity analysis assumes an instantaneous 10% (2014: 3%) change respectively in the foreign currency exchange rates from the end of the reporting period, with all variables held constant.

## 29. Financial instruments and financial risk (Continued)

### 29.2 Market risks (Continued)

*(i) Foreign currency risk (Continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | Increase/(Decrease) Profit/(Loss) | | | |
| | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 |
| **RM** | | | | |
| Strengthens against SGD | (41) | (3) | 53 | (1) |
| Weakens against SGD | 41 | 3 | (53) | 1 |
| **USD** | | | | |
| Strengthens against SGD | 388 | 19 | 349 | 8 |
| Weakens against SGD | (388) | (19) | (349) | (8) |

(ii) *Interest rate risk*

The Group's and the Company's exposure to interest rate risk arises from interest-bearing financial assets and liabilities. The Group's and the Company's policy is to maintain an efficient and optimum cost structure using a combination of fixed and variable rate debts, long and short term borrowings.

Finance lease payables

The interest rate of finance leases are fixed on the date of inception and are not exposed to interest rate risk.

Cash and cash equivalents

The interest-bearing bank balances are short-term in nature. Variation in short-term interest rate is not expected to have a material impact on the results of the Group and the Company.

Bank borrowings

The interest charged on the short-term and long-term bank borrowings are re-priced according to market rates on a quarterly basis. The Group and the Company do not hedge against the interest rate risk associated with their bank borrowings.

## 29. Financial instruments and financial risk (Continued)

### 29.2 Market risks (Continued)

*(ii) Interest rate risk (Continued)*

The following table sets out the carrying amounts of the financial instruments of the Group and the Company that are exposed to interest rate risk at the end of the reporting period:

| | Within 1 year $'000 | 1 to 5 years $'000 | Total $'000 |
|---|---|---|---|
| **2015** | | | |
| **Group and Company** | | | |
| **Financial liabilities** | | | |
| *Floating rate* | | | |
| Term loans | 979 | 995 | 1,974 |
| **2014** | | | |
| **Group and Company** | | | |
| **Financial liabilities** | | | |
| *Floating rate* | | | |
| Term loans | 960 | 1,923 | 2,883 |

Interest rate sensitivity analysis

The Group and the Company are exposed to interest rate risk through the impact of interest rate changes on financial instruments. For the variable rate financial assets and liabilities, a change of 100 basis points in interest rate at the reporting date would (decrease)/increase profit for the year by the amounts shown in the following table. This analysis assumes that all other variables are held constant.

| | (Decrease)/Increase in profit for the year | |
|---|---|---|
| | 100 bp increase $'000 | 100 bp decrease $'000 |
| **Group and Company** | | |
| **2015** | | |
| Floating rate instruments | (20) | 20 |
| **2014** | | |
| Floating rate instruments | (29) | 29 |

### 29.3 Liquidity risk

Liquidity risk refers to the risk in which the Group encounters difficulties in meeting its short-term obligations. Liquidity risks are managed by matching the payment and receipt cycle.

The Group's and the Company's liquidity risks are managed centrally by maintaining an adequate level of cash and cash equivalents as well as to match the payment and receipt cycle to finance the Group's and the Company's operations. Long-term borrowing is a preferred source of financing to ensure continuity of funding. The Group and the Company also ensure adequate lines of bank credit to address any short-term funding requirement. As at 31 December 2015, the Group and the Company had approximately $10,459,000 (2014: $9,278,000), and $8,724,000 (2014: $8,186,000) unutilised banking facilities respectively. The Group's and the Company's surplus funds are also managed centrally by placing them with reputable financial institutions.

## 29. Financial instruments and financial risk (Continued)

### 29.3 Liquidity risk (Continued)

The following table details the Group's and Company's remaining contractual maturity for its financial instruments. The table has been drawn up based on undiscounted cash flows of financial instrument based on the earlier of the contractual date or when the Group and the Company expected to receive or pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial instrument on the statements of financial position.

*Contractual maturity analysis*

| | Within one financial year $'000 | After one financial year but within five financial years $'000 | Adjustments $'000 | Total $'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2015** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 9,386 | – | – | 9,386 |
| Trade and other receivables | 10,561 | – | – | 10,561 |
| **Financial liabilities** | | | | |
| Borrowings | 1,504 | 1,544 | (98) | 2,950 |
| Trade and other payables | 5,252 | – | – | 5,252 |
| **Group** | | | | |
| **2014** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 6,089 | – | – | 6,089 |
| Trade and other receivables | 11,440 | – | – | 11,440 |
| **Financial liabilities** | | | | |
| Borrowings | 1,449 | 2,827 | (163) | 4,113 |
| Trade and other payables | 5,085 | – | – | 5,085 |

## 29. Financial instruments and financial risk (Continued)

### 29.3 Liquidity risk (Continued)

*Contractual maturity analysis (Continued)*

| | Within one financial year $'000 | After one financial year but within five financial years $'000 | Adjustments $'000 | Total $'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **2015** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 4,043 | – | – | 4,043 |
| Trade and other receivables | 11,594 | – | – | 11,594 |
| **Financial liabilities** | | | | |
| Borrowings | 1,121 | 1,076 | (60) | 2,137 |
| Trade and other payables | 6,142 | – | – | 6,142 |
| **Company** | | | | |
| **2014** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 1,458 | – | – | 1,458 |
| Trade and other receivables | 11,620 | – | – | 11,620 |
| **Financial liabilities** | | | | |
| Borrowings | 1,111 | 2,189 | (113) | 3,187 |
| Trade and other payables | 5,948 | – | – | 5,948 |

As at the end of the reporting period, the Group and the Company did not provide any financial guarantee to any bank or third parties.

## 30. Capital management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debts, which includes the borrowings disclosed in Note 11, equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group's management reviews the capital structure on a semi-annual basis. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new shares issues and share buy-backs as well as the utilisation of new banking facilities or the repayment of existing borrowings.

In respect of the term loans disclosed in Note 11 to financial statements, the Group and Company are subjected to and complied with the bank covenants which are externally imposed capital requirements.

## 31. Fair values measurement

### 31.1 Fair value of non-financial assets that are measured at fair value on a recurring basis

For the financial reporting purposes, the fair value measurement of the Group's and the Company's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data)

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The table below classifies the non-financial assets that are measured at fair value using the level of fair value hierarchy:

| | Fair value measurement using: | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| | $'000 | $'000 | $'000 |
| **Group and Company** | | | |
| **2015** | | | |
| **Non-financial asset** | | | |
| Investment property | – | – | 5,750 |
| **2014** | | | |
| **Non-financial asset** | | | |
| Investment property | – | – | 5,750 |

Details of the property are as follows:

| Description/ existing use | Location | Gross ares (Square Metres) | Tenure |
|---|---|---|---|
| A purpose-built industrial property comprising of 7 blocks of single story of factory, warehouse and worker dormitory | 44 Sungei Kadut Street 1, Singapore 729349 | 17,642 | 25 years expiring 2025 |

The Group's Administration and Financial Controller (FC), oversees the Group's financial reporting valuation process and is responsible for setting and documenting the Group's valuation policies and procedures. In this regard, the FC reports to the Group's Audit Committee.

For all significant financial reporting valuations using valuation models and significant unobservable inputs, it is the Group's policy to engage external valuation experts who possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies and FRS 113 fair value measurement guidance to perform the valuation.

## 31. Fair values measurement (Continued)

### 31.1 Fair value of non-financial assets that are measured at fair value on a recurring basis (Continued)

The fair values of the investment property at respective reporting periods have been determined on the basis of valuations carried out at the respective year end dates by independent valuers having an appropriate recognised professional qualification and experience in the location and category of the property being valued. The valuations were arrived at using the Direct Sale Comparison approach by making reference to market evidence of transacted prices per square metre for comparable properties, adjusted for key attributes such as size, tenure, location, condition and prevailing market conditions. The estimation of fair value of the investment property is based on its highest and best use which is in line with its current use.

Management considers that the fair value of the investment property is sensitive to these unobservable adjustments to the price per square metre. The adjusted prices per square metre were used in estimating the fair value of investment property is $326 per square metre.

Any changes to the unobservable inputs, to the extent that they increase or decrease the price per square metre, will result in a corresponding increase or decrease in the fair values of the property. There are no significant inter-relationship between unobservable inputs and fair value.

There have been no changes in the valuation techniques of investment property as at the end of the reporting period. There were no transfers between levels during the financial year.

### 31.2 Financial instruments that are not measured at fair value on a recurring basis

Management considers the financial assets carried at amortised cost to approximate their fair value due to their respective short term maturities. The fair values of current and non-current financial liabilities are disclosed in the table below.

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Carrying amount $'000 | Fair value $'000 | Carrying amount $'000 | Fair value $'000 |
| **Group** | | | | |
| Financial liabilities: | | | | |
| - financial lease payables | 976 | 898 | 1,230 | 1,160 |
| - term loans | 1,974 | 1,871 | 2,883 | 2,661 |
| **Company** | | | | |
| Financial liabilities: | | | | |
| - financial lease payables | 163 | 154 | 304 | 290 |
| - term loans | 1,974 | 1,871 | 2,883 | 2,661 |

The fair values of bank loans and finance leases for disclosure purposes have been determined using discounted cash flow pricing models and are considered level 3 fair value measurements. Discount rate is determined based on the market incremental lending rate for similar types of leasing and borrowing arrangements at the end of the reporting period. Significant inputs to the valuations include adjustments to the discount rate for credit risk associated with the Company. There were no changes to the valuation techniques during the year.

## 31. Fair values measurement (Continued)

### 31.3 Financial instruments that are measured at fair value

The Group and the Company does not hold any financial instruments that are measured at fair value as at the end of the reporting period.

# Supplementary Information in Compliance with SGX-ST

## 1 MATERIAL CONTRACT

No material contracts to which the Company or any subsidiary company is a party involving the CEO, Acting MD, each director, or each controlling shareholder, and are still subsisted at the end of the financial year, or if not subsisting, entered into since the end of the previous financial year.

## 2 INTERESTED PERSON TRANSACTION [Listing Rule Chapter 9]

In compliance with chapter 9 of the Listing Manual ("the Manual") of the Singapore Exchange Securities Trading Limited, there were no transactions with interested person (as defined in the Manual) for the financial year ended 31 December 2015 that exceeded the stipulated threshold. During the year, the aggregate amount of interested person transactions conducted, excluding transactions less than S$100,000 was S$1,093,467 as shown in the table below.

| Name of Interested Person | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) | Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000) |
|---|---|---|
| Hwee Wong Transport Trading Pte Ltd | S$1,093,467 | – |
| Total | S$1,093,467 | – |

## 3 RISK MANAGEMENT POLICY AND PROCESS

### 3.1 Business Risk Management

The Group's market for its pallets and packaging products are predominantly in Singapore where it serves a broad range of industry segments and the demand for the Group's wooden pallets and packaging products will depend on the cumulative level of business activities in all these industries in Singapore. As such, the Group's business will be affected by economic fluctuations in Singapore.

The Group further expects the establishment of its subsidiary companies and appointment of marketing agents overseas to improve the international market for Technical Wood products, IPPC pallets and packaging products, but this is subject to the effect of global economy. The acceptance of the environmental-friendly technical wood products, ECR pallets and pest-free pallet products will have an impact on the Group's business.

### 3.2 Raw Material Risk Management

As most of the Group's raw materials for the pallet and packaging products are sourced from overseas, particularly from Australia, New Zealand and China, the Group's cost of raw materials will be affected by fluctuation of the currency exchange which will affect our production cost. In order to manage this, the Group will monitor closely currency exchange movements and hedge it when necessary.

# Supplementary Information in Compliance with SGX-ST

**3.3 Human Resource Management**

The Company recognises the importance of human resource and employees' morale within the organisation. It has in place a systematic process in ensuring that the employees are competitively rewarded and incentives and bonus are accorded based on the performance of the companies within the Group and the performance of the employees.

**3.4 Safety and Emergency Risk Management**

The Company strongly emphasises the importance of fire and safety in this hazardous wood industry, and of providing uninterrupted flow of products and services. The Company established Fire and Safety Committees for ensuring the proper prevention and handling of accident and there is close coordination between various committees in emergency response and preparedness. The Company, being a member of Safety & Security Watch Group (SSWG) of Sungei Kadut and Kranji Industrial Estates, plays an important role in assisting SPF and SCDF in handling of the incidents relating to security and civil emergencies.

**3.5 Financial Risk Management**

The Group's financial risks mainly consist of interest rate risk, liquidity risk, credit risk, foreign currency risk, and capital risk management which arise from the Group's financial instruments. The details of the management of these risks are stated in page 67 to page 73 — Note 29 of the Notes to the Financial Statements — 31 December 2015.

# Corporate Governance Report

LHT Holdings Limited (the "**Company**") is committed to maintaining good corporate governance and transparency practices within the Company and its subsidiaries (the "**Group**"). Good corporate governance establishes and maintains an ethical environment in the Group, which strives to enhance the interests of the shareholders of the Company (the "**Shareholders**"). This Report outlines the Company's corporate governance processes and activities for the financial year ended 31 December 2015 ("**FY 2015**") with specific reference to the Code of Corporate Governance 2012 (the "**Code**"). For ease of reference, the relevant provisions of the Code under discussion are in italics.

## Board of Directors (the "Board")

***The Board's conduct of its affairs***

***Principle 1:***
***Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and the Management remains accountable to the Board.***

***Board Composition and Guidance***

***Principle 2:***
***There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.***

The Board comprises seven Directors; three Executive Directors, one alternate Director to the Executive Director, Ms Yap Mui Kee and three Non-Executive Independent Directors. The Board's principal functions include, among others, supervising the overall management of the business and affairs of the Group and approving the Group's corporate and strategic policies and directions. Matters which are specifically reserved for the approval of the Board include, among others, any major funding proposals, investment and divestment proposals, material acquisitions and disposals of assets and major undertakings (other than in the ordinary course of business).

The Board conducts regular scheduled meetings. Ad-hoc meetings are convened when circumstances require. To facilitate the attendance and participation of Directors at Board meetings, the Company's Articles of Association allow Board meetings to be conducted by means of telephone conference or other methods of simultaneous communication by electronic or telegraphic means.

The Company has a training budget to fund the existing Directors' participation at industry conferences and seminars, and attendance at any course of instruction/training programme in connection with their duties as Directors. This budget may be utilised by each and every Director subject to approval by the Managing Director. The Company has adopted a policy that welcomes Directors to request for explanations, briefings or informal discussions on any aspects of the Company's operations or business issues from the management. The Managing Director will make the necessary arrangements for the briefings, informal discussions or explanations when required by the Directors.

The Board as a whole is updated regularly on risk management, corporate governance, insider trading and the key changes in the relevant regulatory requirements and financial reporting standards, so as to enable them to properly discharge their duties as Board or Board Committee members. The details of updates, briefings and training programmes attended by the Directors in FY 2015 are as follows:-

- The external auditors, BDO LLP, briefed the AC and the Board on the developments in financial reporting and governance standard;
- Minimum Trading Price (MTP) rules implemented by the SGX-ST for the companies listed on the main board.

- The NC and the Board were briefed on the Revised Code of Corporate Governance which took effective on 1 November 2012 and the Personal Data Protection Act 2012 and its impact on businesses and individuals.
- Global Corporate Governance Conference organised by Securities Investors Association (Singapore) [SIAS].
- Briefing was provided to the Board on the regime for the disclosure of interests by Directors/CEOs and substantial shareholders of listed entities under the Securities and Futures Act.
- Implementation of The Companies (Amendment) Act 2014.
- Implementation of The Companies (Amendment) Act: Impact on Listed Companies and Investors.
- ISO 9001:2015 and ISO 14001:2015 awareness training.

During the course of the last financial year, the Company has no incoming Directors. However, when there are such appointments, the newly appointed Directors will be given briefings by the Managing Director and the management on the business activities and its strategic directions. They will also be provided a formal letter setting out their duties and obligations.

To assist the Board in discharging its responsibilities, the Board has established three board committees, namely, the Audit Committee (the "**AC**"), the Nominating Committee (the "**NC**") and the Remuneration Committee (the "**RC**"). These committees function within clearly defined terms of reference and operating procedures, which are reviewed on a regular basis. The number of Board, AC, NC and RC meetings held in FY2015 and the attendance of each Board member at those meetings were as follows:-

**Directors' Attendance at Board and Board Committee Meetings**

| Name | Board | | Audit Committee | | Nominating Committee | | Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| | No. of Meetings held | No. of Meetings Attended | No. of Meetings held | No. of Meetings Attended | No. of Meetings held | No. of Meetings Attended | No. of Meetings held | No. of Meetings Attended |
| **Neo Koon Boo** *(Managing Director)* | 4 | 2 | 2 | 2# | 2 | 2# | 2 | 2# |
| **Tan Kim Sing** *(Executive Director)* | 4 | 4 | 2 | 2# | 2 | 2# | 2 | 2# |
| **Yap Mui Kee**** *(Executive Director and Acting MD)* | 4 | 4 | 2 | 2# | 2 | 2# | 2 | 2# |
| **Tan Kok Hiang** *(Non-Executive, Lead Independent Director)* | 4 | 4 | 2 | 2 | 2 | 2 | 2 | 2 |
| **Low Peng Kit** *(Non-Executive, Independent Director)* | 4 | 4 | 2 | 2 | 2 | 2 | 2 | 2 |
| **Wu Chiaw Ching** *(Non-Executive, Independent Director)* | 4 | 4 | 2 | 2 | 2 | 2 | 2 | 2 |
| **Sally Yap Mei Yen**** *(Alternate Director to Yap Mui Kee/ Corporate Secretary)* | 4 | 4 | 2 | 2# | 2 | 2# | 2 | 2# |

# By invitation.

** Yap Mui Kee and Sally Yap Mei Yen are sisters.

On an annual basis, the Non-Executive Independent Directors were required to make an annual independence declaration based on the criterion of independence provided under guidelines 2.3 of the Code. The NC has reviewed such declarations and has ascertained and satisfied the independence status of all the three Non-Executive Independent Directors of the Company.

In line with guideline 2.4 of the Code, the Board has also rigorously reviewed the number of years served by each Non-Executive Independent Director. The NC noted both Mr Tan Kok Hiang and Mr Low Peng Kit have served the Company for more than nine years. Having considered their in-depth knowledge of the Group's business operations, past and continuous contributions at Board level in terms of impartial and constructive advice; the Board was of the view that there were no material conflict between their tenure and their ability to discharge their role as Non-Executive Independent Directors.

The Board and its Board committees comprise directors who as a group provide an appropriate balance and diversity of skills, experience, gender and knowledge of the Company. The three Non-Executive Independent Directors endeavour to constructively challenge and help develop proposals on strategy and to review the performance of management in meeting goals and objectives. To facilitate a more effective check on management, the Non-Executive Independent Directors may meet without the presence of management. Key information of Directors is set out on pages 83 to 86 of this Annual Report.

***Role of the Chairman and Chief Executive Officer ("CEO")***

***Principle 3:***

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

Mr. Neo Koon Boo ("**Mr. Neo**") is currently the chairman of the Board (the "**Chairman**") and the Managing Director of the Company (the "**Managing Director**"). Ms. Yap Mui Kee, the Executive Director and the Acting Managing Director (the "**Acting MD**") assists Mr Neo who is on medical leave since 12 August 2015. As the Chairman and the Managing Director is the same person, as recommended by the Code, the Board has appointed Mr Tan Kok Hiang ("Mr Tan") as Lead Independent Director of the Company. Mr Tan is available to the shareholders where they have concerns which they are unable or felt inappropriate to contact through the normal channels of the Chairman, the Managing Director and the Acting MD. The Board is of the view that there exist a team of strong Non-Executive Independent Directors on the Board to enable the exercise of unbiased and objective judgement on corporate affairs of the Group by members of the Board, taking into account factors such as the number of Non-Executive Independent Directors on the Board, as well as the size and scope of the affairs and operations of the Group. No one individual represents a considerable concentration of power.

The Chairman and the Acting MD are responsible for, among others,

(1) Exercising control over quality, quantity and timeliness of the flow of information between the management of the Company (the "**Management**") and the Board.

(2) Scheduling meetings that enable the Board to perform its duties responsibly with no disruption to the operation of the Company.

(3) Assisting in ensuring the compliance with Company's guideline on governance.

(4) Setting meeting agenda for Board Meetings with the assistance of the Corporate Secretary.

The Managing Director and the Acting MD reviews most of the board papers before they are presented to the Board; this is to ensure that board members are provided with relevant, adequate and complete information. As a general rule, board papers are sent to Directors at least three days before the date of the meeting to enable Directors to prepare for the meeting.

The Independent Directors, led by the Lead Independent Director, meet amongst themselves without the presence of other Directors twice a year, coinciding with the half-yearly meeting. The Lead Independent Director will provide feedback to the Chairman and the Acting MD after such meetings.

## Board Committees

## Nominating Committee ("NC")

***Board Membership***

***Principle 4:***
***There should be a formal and transparent process for the appointment and re-appointment of Directors to the Board.***

The NC comprises all the three Non-Executive Independent Directors. The Chairman of the NC is Mr. Low Peng Kit. Mr Tan Kok Hiang and Dr Wu Chiaw Ching are the members.

The NC has adopted specific written terms of reference. Mr Tan Kok Hiang, Lead Independent Director is also a member of the NC. The key terms of reference of the NC include:-

(i) to make recommendations to the Board on the appointment of new executive and non-executive Directors, including making recommendations on the composition of the Board generally and the balance between executive and non-executive Directors appointed to the Board.

(ii) to determine annually if a Director is independent and make recommendations to the Board on the composition of independence Directors of each Board Committee.

(iii) to identify and nominate candidates for the approval of the Board, to fill Board vacancies as and when they arise as well as put in place plans for succession, in particular for the Chairperson and Chief Executive.

(iv) to make recommendations to the Board for the continuation (or not) in service of any Director who has reached the age of 70 (seventy).

(v) to recommend Directors who are retiring by rotation to be put forward for re-election.

(vi) to have due regard to the principles of governance and code of best practice.

(vii) to liaise with the Board in relation to the preparation of the Committee's report to shareholders as required.

(viii) to decide whether or not a Director is able to and has been adequately carrying out his/her duties as a Director of the Company, particularly when he / she has multiple Board Representations. The NC has adopted internal guidelines that address the competing time commitments that are faced when Directors serve on multiple boards to ensure that Directors give sufficient time and attention to each Company's affairs.

(ix) to assess the effectiveness of the Board as a whole and to assess the contribution of each individual Director to the effectiveness of the Board. This assessment process is performed and disclosed annually.

From time to time, the NC would make recommendation to the Board matters relating to the training and professional development programs for the Board.

Where a vacancy arises under any circumstances, or where it is considered that the Board could benefit from the services of a new Director with particular skills, the NC, in consultation with the Board determines the selection criteria and selects candidates with the appropriate expertise and experience for the position. The NC will evaluate the capabilities of the candidates in areas of academic and professional qualifications, knowledge and experiences in relation to the business of the Group.

None of the Directors is appointed for a fixed term. The following provision in the Company's Articles of Association, provide guidelines for retirement and rotation of Directors:-

***Article 103*** *provides that one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not greater than one-third shall retire from office by rotation, provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.*

***Article 107*** *provides that any director appointed during the financial year shall hold such office until the next annual general meeting of the Company and shall be eligible for re-election at such general meeting.*

The key information regarding the Directors of the Company, including their present and past three years directorship in other listed companies are as follows:

| | |
|---|---|
| Name of Director | Neo Koon Boo (Managing Director) |
| Shareholding in the Company (as at 11 March 2016) | 12,098,147 Shares (as set out on page 102 of this report) |
| Board Committees Served | None |
| Date of first appointment as Director | 29 August 1980 |
| Date of last re-election as Director | 24 April 2015 (Recommended by Nominating Committee for re-election at the forthcoming Annual General Meeting to be scheduled on 29 April 2016. Please also refer to the Explanatory Note (ii) on page 106 of the Notice of Annual General Meeting.) |
| Present Directorships in other listed companies | None |
| Past Directorships in other listed companies (within the last 3 years) | None |

| | |
|---|---|
| Name of Director | Tan Kim Sing (Executive Director) |
| Shareholding in the Company (as at 11 March 2016) | 9,671,205 Shares (as set out on page 102 of this report) Tan Kim Sing is deemed to be interested in the 16,250 shares held by his spouse, Mdm Ng Siew Yeng |
| Board Committees Served | None |
| Date of first appointment as Director | 29 August 1980 |
| Date of last re-election as Director | 24 April 2015 |
| Present Directorships in other listed companies | None |
| Past Directorships in other listed companies (within the last 3 years) | None |

| | |
|---|---|
| Name of Director | Yap Mui Kee (Executive Director) |
| Shareholding in the Company (as at 11 March 2016) | 6,605,032 Shares (as set out on page 102 of this report) |
| Board Committees Served | None |
| Date of first appointment as Director | 02 January 1988 |
| Date of last re-election as Director | 25 April 2014 (Recommended by Nominating Committee for re-election under Article 103 at the forthcoming Annual General Meeting to be scheduled on 29 April 2016) |
| Present Directorships in other listed companies | None |
| Past Directorships in other listed companies (within the last 3 years) | None |

| | |
|---|---|
| Name of Director | Tan Kok Hiang (Non-Executive, Lead Independent Director) |
| Shareholding in the Company (as at 11 March 2016) | 10,000 Shares |
| Board Committees Served | Tan Kok Hiang is a Chairman of Audit Committee and Remuneration Committee and Member of Nominating Committee |
| Date of first appointment as Director | 01 July 1999 |
| Date of last re-election as Director | 24 April 2015 |
| Present Directorships in other listed companies | Enviro Hub Holdings Ltd (Non-Executive, Independent Director)<br>Transit-Mixed Concrete Ltd (Non-Executive, Independent Director)<br>ICP Limited (Formerly known as Goldtron Limited) (Non-Executive, Independent Director) |
| Past Directorships in other listed companies (within the last 3 years) | Food Junction Holdings Limited (Non-Executive, Independent Director)<br>Viz Branz Limited (Non-Independent, Non-Executive Director) |

| | |
|---|---|
| Name of Director | Low Peng Kit (Non-Executive, Independent Director) |
| Shareholding in the Company (as at 11 March 2016) | 3,750 Shares |
| Board Committees Served | Low Peng Kit is a Chairman of Nominating Committee, Member of Audit Committee and Remuneration Committee |
| Date of first appointment as Director | 01 July 1999 |
| Date of last re-election as Director | 25 April 2014 |
| Present Directorships in other listed companies | None |
| Past Directorships in other listed companies (within the last 3 years) | None |

| | |
|---|---|
| Name of Director | Wu Chiaw Ching (Non-Executive, Independent Director) |
| Shareholding in the Company (as at 11 March 2016) | None |
| Board Committees Served | Wu Chiaw Ching is a Member of Audit Committee, Remuneration Committee and Nominating Committee |
| Date of first appointment as Director | 12 March 2007 |
| Date of last re-election as Director | 26 April 2013 (Recommended by Nominating Committee for re-election under Article 103 at the forthcoming Annual General Meeting to be scheduled on 29 April 2016) |
| Present Directorships in other listed companies | Goodland Group Limited<br>(Non-Executive, Lead Independent Director)<br><br>Natural Cool Holdings Limited<br>(Non-Executive, Independent Director)<br><br>Gaylin Holdings Limited<br>(Non-Executive, Independent Director)<br><br>GDS Global Limited<br>(Non-Executive, Lead Independent Director) |
| Past Directorships in other listed companies (within the last 3 years) | China Fashion Holdings Limited<br>(Non-Executive, Independent Director) |

| | |
|---|---|
| Name of Alternate Director | Sally Yap Mei Yen<br>(Alternate Director to Yap Mui Kee/Corporate Secretary) |
| Shareholding in the Company (as at 11 March 2016) | 88,800 Shares |
| Board Committees Served | Company Secretary to the Audit Committee, Nominating Committees and Remuneration Committee |
| Date of first appointment as Director | 20 July 1998 |
| Date of last re-election as Director | 25 April 2014 (same as the appointor above) |
| Present Directorships in other listed companies | None |
| Past Directorships in other listed companies (within the last 3 years) | None |

Presently, one of the Executive Directors and all Non-Executive Independent Directors of the Company hold other board representations in companies which are not within the Group. The NC has reviewed and are satisfied that such multiple board representations of the Directors would not hinder their abilities to carry out their duties as directors of the Company.

The NC has adopted internal guidelines that address the competing time commitments that are faced when Directors serve on multiple boards to ensure that Directors give sufficient time and attention to each company's affairs. Further, the NC and the Board are of the view that such multiple board representations of the Directors benefit the Group, as the Directors are able to bring with them the experience and knowledge obtained from such board representations in other companies. The current policy of the Company provides that the maximum number of listed company board appointments for Executive Directors or key management personnel shall not be more than four (4) listed companies.

The NC also ensures that the Board as a whole possesses the core competencies required by the Code. The NC adopted the Code's definition of what constitutes an Independent Director.

The NC had met the above terms of reference and is of the view that:-

(a) all the Directors of the NC are Non-Executive and Independent Directors and are able to exercise objective judgement on corporate affairs of the Group independently from Management;

(b) there is no individual or small group of individuals on the Board who dominate the Board's decision-making process and the Board is of the view that there is an adequate process for the appointment of new Directors.

(c) the Board as a whole possesses core competencies required for the effective conduct of the affairs and operations of the Group; and

(d) the current size of the Board is adequate for the purposes of the Group.

Ms Sally Yap is the Company Secretary of the Company. She is also appointed by Ms Yap Mui Kee, an Executive Director of the Company to act as alternate Director. Ms Sally Yap, being part of the management, is familiar with the Company's affairs. She has always been providing substantial feedback and robust discussion at Board meetings of the Company. The NC, taking into consideration the above matter, felt that Ms Sally Yap is appropriately qualified and capable of discharging the duties and responsibilities of a Director.

***Board Performance***

***Principle 5:***
***There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each Director to the effectiveness of the Board.***

One of the responsibilities of the NC is to assess the effectiveness of the Board as a whole and to assess the contribution of each individual Director to the effectiveness of the Board. The NC has established an appraisal process to assess the performance and effectiveness of the Board. The assessment process comprises three parts:

Part 1: The Board Self-Assessment on the qualitative of the functioning of the Board
Part 2: Individual Directors Self-Assessment
Part 3: Individual Directors will also do a Peer Assessment on Directors

The performance criteria of the three parts of the assessments have been endorsed by the NC and the Board. The completed qualitative assessment questionnaires are submitted to the NC for discussion. The results and conclusion are then presented to the Board by the NC together with the action plan is then drawn up to address any areas for improvement.

The review parameters for evaluating each Director include, among others, the following:-

(a) Attendance at board/committee meetings and related activities

(b) Adequacy of preparation for board meeting

(c) Contribution in strategic business decision, finance and accounting, risk management, legal and regulatory and HR management

(d) Contribution in own specialist relevant area

(e) Generation of constructive debate

(f) Maintenance of independence

(g) Disclosure of related party transactions

No external facilitator has been engaged in the Board assessment process.

The NC is of the view that despite multiple board representations in certain instances, each Director is able and has been adequately carrying his duties as a Director of the Company

The Board is of the view that the performance of the Company's share price alone does not necessarily give a good indication of the performance of the Company and hence the performance of the Board as a whole. Instead, the Board has identified the Group's revenue and profit before tax to be a better performance indicator to assess the performance of the Board.

Each member of the NC shall abstain from voting on any resolution and making any recommendation and/or participating in respect of matters in which he has an interest.

***Access to information***

***Principle 6:***
***In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.***

To keep the Board updated on the business and progress of the Company, the Management has continuously providing to the board members with monthly management accounts and financial statement related information. The information would usually be circulated to the Board Members within twenty (20) days after the month-end. The Board agreed that complete, adequate and timely information are crucial to enable the Board to make an informed decision, and discharge their duties and responsibilities.

As a general rule, detailed Board and Board Committees papers would usually be prepared and circulated to the respective Board/committee members not less than five (5) days prior to each scheduled meetings. This would enable the Directors to have sufficient time to review and consider the relevant matters to be highlighted and discussed at the meeting, to promote proactive and productive discussion. Save as aforesaid, certain sensitive matters may be tabled at the meeting and discussed without papers being distributed.

The Directors have been given easy access to the Company's senior management and corporate secretary. Under the direction of the Chairman, the Corporate Secretary's responsibilities include ensuring good information flow within the Board and its Board Committees and between Management and Non-Executive Independent Directors, and advising the Board committee on all governance matters. To facilitate access, Board members have been provided with phone numbers and e-mails particulars of the Company's Senior Management and Corporate Secretary. Should the Directors, whether singly or collectively need independent professional advice, the Corporate Secretary will, upon direction by the Board, appoint a professional advisor selected by the group or the individual, and approved by the Managing Director to render the advice. The cost of such professional advice will be borne by the Company. The Corporate Secretary assisted the Board in ensuring that the Board procedures and the rules and regulations relating thereto are complied with. The appointment and the removal of the Company Secretary are subject to the approval of the Board.

## Remuneration Committee ("RC")

***Procedures for Developing Remuneration Policies***

***Principle 7:***
***There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his own remuneration.***

***Level and Mix of Remuneration***

***Principle 8:***
***The level and structure of remuneration should be aligned with long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.***

***Disclosure on Remuneration***

***Principle 9:***
***Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to Directors and key management personnel, and performance.***

The RC comprises three Non-Executive Independent Directors, the Chairman of the RC is Mr Tan Kok Hiang, Mr Low Peng Kit and Dr Wu Chiaw Ching are the members. The Chairman of the RC, Mr. Tan Kok Hiang, is experienced in capital markets functions, corporate finance, asset management, financial investments, accounting and is also knowledgeable in the field of executive compensation.

The RC has adopted specific written terms of reference. The key terms of reference of the RC include:-

(1) to review the remuneration packages and terms of employment of each Executive Director, divisional or subsidiary companies' Directors and each employee who is related to the Executive Director and controlling shareholder of the Group.

(2) to review the total remuneration of the Executive Directors, divisional or subsidiary companies' Directors and employees who are related to the Executive Directors and controlling shareholders of the Group.

(3) to ensure that the remuneration package of employees related to the Executive Directors and controlling shareholders of the Group are in line with the Group's staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities.

(4) to ensure the remuneration of at least the top five executives (in term of aggregate remuneration and not being Directors) are formulated.

(5) to ensure no Director or member of the RC shall be involved in deciding his own remuneration, except for providing information and documents specifically requested by the RC to assist it in its deliberations.

(6) to recommend to the Board a framework of remuneration, and the specific remuneration packages for each Director and the CEO (or Executive of equivalent rank) if the CEO is not a Director. The RC's recommendations should be submitted for endorsement by the entire Board. The RC should cover all aspects of remuneration, including but not limited to Director's fees, salaries, allowances, bonuses, options, and benefits in kind. RC will also review the remuneration of senior management.

As part of its review, the RC ensures that the Directors and key management personnel are adequately but not excessively remunerated. As far as possible, the RC ensures that the Executive Directors' and key management personnel remuneration are structured so as to link remuneration to corporate and individual performance and align with the interest of shareholders to promote the long-term success of the Company, taking into account the risk policies of the Company, be symmetric with risk outcomes and be sensitive to the time horizon of risks.

For FY2015, the RC has not consulted any external remuneration consultant.

Each of the remuneration of the Executive Directors is governed under the separate service agreement entered into with the Company, which took effect from 1 July 2013 and will continue for three (3) years unless otherwise terminated by either party giving not less than six (6) months notice or an amount equal to six (6) months' salary in lieu of notice. Each of the Service Agreements may be terminated by the Company by summary notice upon the occurrence of certain events, such as misconduct or a breach of the Executive Directors' obligations. According to the respective service agreements, the Executive Directors are paid the remuneration include, among others, a fixed salary and a variable performance bonus.

As set out in the table on Principle 9, the performance-related elements of remuneration formed a small proportion of the total remuneration package of the Executive Directors, which is designed to align the Executive Directors' interests with that of the Shareholders. The variable bonus makes up 19%, 19% and 18% of the total remuneration paid to each of the Executive Directors, Ms Yap Mui Kee, Mr Tan Kim Sing and Mr Neo Koon Boo respectively in FY2015.

Independent Non-Executive Directors are paid directors' fees, subject to approval at the AGM and do not receive salary, bonus and other benefits.

The RC will consider the use of contractual provision to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.

The Company currently does not have any employee share option schemes.

Due to the confidentiality reason and to protect the Group's interest, guideline 9.2 is not complied with. Appended herein below is a breakdown showing the level and mix of each Director's remuneration and the Managing Director in bands of S$250,000 for FY 2015:-

| **Name & Designation** | **FY2015** | | **FY2014** | |
|---|---|---|---|---|
| | **Above S$250,000 and below S$500,000** | **%** | **Above S$250,000 and below S$500,000** | **%** |
| Neo Koon Boo (Managing Director) | Salary | 61 | Salary | 60 |
| | Fee* | 16 | Fee | 18 |
| | Bonus | 18 | Bonus | 17 |
| | Other Benefits | 5 | Other Benefits | 5 |

<table>
<tr><th rowspan="2">Name & Designation</th><th colspan="2">FY2015</th><th colspan="2">FY2014</th></tr>
<tr><th>Below S$250,000</th><th>%</th><th>Below S$250,000</th><th>%</th></tr>
<tr><td rowspan="4">Tan Kim Sing<br>(Executive Director)</td><td>Salary</td><td>57</td><td>Salary</td><td>58</td></tr>
<tr><td>Fee*</td><td>20</td><td>Fee</td><td>22</td></tr>
<tr><td>Bonus</td><td>19</td><td>Bonus</td><td>16</td></tr>
<tr><td>Other Benefits</td><td>4</td><td>Other Benefits</td><td>4</td></tr>
<tr><td rowspan="4">Yap Mui Kee<br>(Executive Director and Acting MD)</td><td>Salary</td><td>58</td><td>Salary</td><td>59</td></tr>
<tr><td>Fee*</td><td>19</td><td>Fee</td><td>21</td></tr>
<tr><td>Bonus</td><td>19</td><td>Bonus</td><td>16</td></tr>
<tr><td>Other Benefits</td><td>4</td><td>Other Benefits</td><td>4</td></tr>
<tr><td rowspan="4">Tan Kok Hiang<br>(Non-Executive, Lead Independent Director)</td><td>Salary</td><td>–</td><td>Salary</td><td>–</td></tr>
<tr><td>Fee*</td><td>100</td><td>Fee</td><td>100</td></tr>
<tr><td>Bonus</td><td>–</td><td>Bonus</td><td>–</td></tr>
<tr><td>Other Benefits</td><td>–</td><td>Other Benefits</td><td>–</td></tr>
<tr><td rowspan="4">Low Peng Kit<br>(Non-Executive, Independent Director)</td><td>Salary</td><td>–</td><td>Salary</td><td>–</td></tr>
<tr><td>Fee*</td><td>100</td><td>Fee</td><td>100</td></tr>
<tr><td>Bonus</td><td>–</td><td>Bonus</td><td>–</td></tr>
<tr><td>Other Benefits</td><td>–</td><td>Other Benefits</td><td>–</td></tr>
<tr><td rowspan="4">Wu Chiaw Ching<br>(Non-Executive, Independent Director)</td><td>Salary</td><td>–</td><td>Salary</td><td>–</td></tr>
<tr><td>Fee*</td><td>100</td><td>Fee</td><td>100</td></tr>
<tr><td>Bonus</td><td>–</td><td>Bonus</td><td>–</td></tr>
<tr><td>Other Benefits</td><td>–</td><td>Other Benefits</td><td>–</td></tr>
<tr><td rowspan="4">Sally Yap Mei Yen<br>(Alternate Director[##] to Yap Mui Kee/<br>Corporate Secretary[@@])</td><td>Salary</td><td>67</td><td>Salary</td><td>76</td></tr>
<tr><td>Fee*</td><td>–</td><td>Fee</td><td>–</td></tr>
<tr><td>Bonus</td><td>33</td><td>Bonus</td><td>24</td></tr>
<tr><td>Other Benefits</td><td>–</td><td>Other Benefits</td><td>–</td></tr>
</table>

* Fees are subject to the approval of the Shareholders at the AGM for FY2015

## According to the **Article 108** states that an Alternate Director so appointed shall be entitled to receive from the Company such proportion (if any) of the remuneration otherwise payable to her appointor as such appointor may by writing to the Company from time to time direct, but save as aforesaid, the Alternate Director shall not in respect of such appointment be entitled to receive any remuneration from the Company. Any fee paid to an Alternate Director shall be deducted from the remuneration otherwise payable by her appointor.

@@ Remunerated under the capacity of a Corporate Secretary and does not belong to the level and mix of remuneration of the top five key executives as shown on next page.

Due to confidentiality reason and to protect the Group's interest, guideline 9.3 of the Code is partially complied with. Appended below is a breakdown showing the level and mid of each key management personnel (who are not Directors or the CEO) in bands of S$250,000 for FY 2015:-

| **Name & Designation** | **FY2015** | | **FY2014** | |
|---|---|---|---|---|
| | **Below S$250,000** | **%** | **Below S$250,000** | **%** |
| Vincent Tan Khar Kheng (Administration and Financial Controller appointed on 19 March 2015) | Salary | 84 | Salary | – |
| | Bonus | 16 | Bonus | – |
| | Other Benefits | – | Other Benefits | – |
| William Yap Yew Weng (Senior Sales Manager) | Salary | 96 | Salary | 97 |
| | Bonus | 4 | Bonus | 3 |
| | Other Benefits | – | Other Benefits | – |
| Yeo Boon Chan (Procurement Manager) | Salary | 84 | Salary | 83 |
| | Bonus | 16 | Bonus | 17 |
| | Other Benefits | – | Other Benefits | – |
| Derek Neo Kah Seng ^^^ (Recycling Plant Manager) | Salary | 86 | Salary | 86 |
| | Bonus | 14 | Bonus | 14 |
| | Other Benefits | – | Other Benefits | – |
| Benny Kok Chee Chuen >>> (Production Manager) | Salary | 91 | Salary | 90 |
| | Bonus | 9 | Bonus | 10 |
| | Other Benefits | – | Other Benefits | – |

^^^ Derek Neo Kah Seng and Neo Koon Boo, Managing Director are brothers

>>> Benny Kok Chee Chuen is nephew of Neo Koon Boo, Managing Director

The remuneration paid to employees who are immediate family members of a Director or the CEO, whose remuneration exceeds S$50,000 in FY 2015 is as follows:-

| Name & Designation | Relationship | FY2015 | | FY2014 | |
|---|---|---|---|---|---|
| | | Below S$250,000 | % | Below S$250,000 | % |
| Yeo Wen Torng (ECR-RFID Project Manager) | Spouse of Yap Mui Kee, Executive Director and Acting MD | Salary | 84 | Salary | 84 |
| | | Bonus | 16 | Bonus | 16 |
| | | Other Benefits | – | Other Benefits | – |
| Billy Neo Kian Wee (Manager – Overseas Market Development Section) | Son of Neo Koon Boo, Managing Director | Salary | 87 | Salary | 87 |
| | | Bonus | 13 | Bonus | 13 |
| | | Other Benefits | – | Other Benefits | – |
| Yap Mei Lan (Senior Sales Manager) | Sister of Yap Mui Kee, Executive Director and Acting MD | Salary | 74 | Salary | 76 |
| | | Bonus | 26 | Bonus | 24 |
| | | Other Benefits | – | Other Benefits | – |
| Tay Kee Kuang (Director of subsidiary — Lian Hup Packaging Industries Sdn Bhd) | Nephew of Neo Koon Boo, Managing Director | Salary | 78 | Salary | 76 |
| | | Bonus | 19 | Bonus | 21 |
| | | Fee | 3 | Fee | 3 |
| | | Other Benefits | – | Other Benefits | – |
| Tay Kee Soon (Director of subsidiary — LHT Gpac Technology (M) Sdn Bhd) | Nephew of Neo Koon Boo, Managing Director | Salary | 84 | Salary | 87 |
| | | Bonus | 16 | Bonus | 13 |
| | | Fee | – | Fee | – |
| | | Other Benefits | – | Other Benefits | – |

***Accountability***

***Principle 10:***
***The Board should present a balanced and understandable assessment of the company's performance, position and prospects.***

Management would provide the Board with balanced and easily understood management accounts of the Company's performance, position and prospect on a regular basis. Shareholders are provided with detailed analysis, explanation and assessment of the Group's financial position and prospect through the Company's annual report and bi-annual results reporting, since the listing of the Company, annual results are published through the SGXNET and on its public website, **www.lht.com.sg**, to ensure all stakeholders and the public gain fair access to information, updates, and archives of the Company.

The Board also provides negative assurance confirmation to shareholders for the half yearly financial statements in accordance with Rule 705(6) of the SGX ST Listing Manual.

For the financial year under review, the Acting MD and the Financial Controller ("FC") have provided assurance to the Board on the integrity of the Group's financial statements. The Board also provides an opinion on the adequacy and effectiveness of the Group's risk management and internal controls systems in place, including financial, operational compliance and information technology controls.

## Risk Management and Internal Control

***Principle 11:***
***The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interest and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.***

The Group currently does not have a Risk Management Committee. The Board, AC and the management assume the responsibility of the risk management function. Management reviews regularly the Group's business and operational activities to identify areas of significant risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant policies and procedures and highlights all significant matters to the Board and the AC.

The Internal Audit function of the Group for the FY 2015 was outsourced to an independent company, D' Ark Services Pte Ltd. The internal auditors reports directly to the Audit Committee and assists the Audit Committee in monitoring and assessing the effectiveness of the Group's material internal controls. The internal auditors also assists the Group's management in identifying operational and business risks and provides recommendations to address these risks. The internal audit plan is approved by the AC and the results of the audit findings are submitted to the AC and deliberated in its meeting. The internal and external auditors conducted an annual review in accordance with their audit plans, the effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management. Any material non-compliance or failures in internal controls and recommendations for improvements were reported to the AC. The AC, together with the Board has also reviewed the effectiveness of the actions taken by management on the recommendations made by the internal and external auditors in this respect. The Board and the AC are of the view that the internal audit is adequately resourced and has the appropriate standing within the Group.

The Board believes that, in the absence of any evidence to the contrary, the system of internal controls maintained by the management that was in place throughout the financial year under review and up to the date of this report, provides reasonable, but not absolute, assurance against material financial misstatements or losses, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, and the identification and containment of business risks. The Board with the concurrence of the AC is satisfied that the internal audit is adequately resourced and has the appropriate standing within the Group, and that the internal controls are adequate in addressing financial, operational and compliance risks in the Company.

The Board has received assurance from the Acting MD and the FC at the Board meeting held on 26 February 2016 that the Group's risk management and internal control systems in place are adequate and effective in addressing the material risks in the Group in its current business environment including material financial, operational, compliance and information technology risks and also that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's business operations and finances.

Based on the internal controls maintained by the Group, works performed by the internal and external auditors, review done by the management, various Board Committees and Board, the Board with the concurrence of the AC is satisfied that the Group's internal controls are adequate in addressing financial, operational and compliance risks as at 31 December 2015.

In view of the latest guideline from the Exchange in relation to Rule 720 (1) of the SGX-ST Listing Manual, the Company has procured signed undertakings from all its directors and executive officers based on the latest revised form of Appendix 7.7 of the SGX-ST Listing Manual.

***Audit Committee***

***Principle 12:***
***The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.***

The AC comprises three members, including the Chairman of the AC, all are independent and Non-Executive Directors. The Chairman of the AC is Mr Tan Kok Hiang. Dr Wu Chiaw Ching and Mr Low Peng Kit are members. The AC has adopted written terms of reference. The members of the AC have many years of experience including direct and relevant experience in the areas of accounting and finance. The Board considers the current members of the AC appropriately qualified to discharge their responsibilities. In FY2015, the AC met twice. Details of the members' attendance at AC meetings in FY2015 are provided on page 80 of this Report.

The AC has adopted specific written terms of reference. The key terms of reference of the AC include:-

a) to review with the external auditors:-

- the audit plan, including the nature and scope of the audit before the audit commences
- their evaluation of the system of internal accounting controls
- their audit report
- their management letter and Management's response

b) to ensure co-ordination where more than one audit firm is involved

c) to review the half-year and annual financial statements before submission to the Board for approval, focusing in particular, on:-

i) changes in accounting policies and practices

ii) major risk areas

iii) significant adjustments resulting from the audit

iv) the going concern statement

v) compliance with accounting standards

vi) compliance with stock exchange and statutory/regulatory requirements.

d) to discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the internal and external auditors may wish to discuss (in the absence of Management where necessary).

e) to review the assistance given by Management to the auditor.

f) to review the internal audit programme and ensure co-ordination between the internal and external auditors and Management and to ensure the integrity of the financial statements and any formal announcements relating to the Company's financial performance.

g) to review the scope and results of the internal audit procedures.

h) to review the significant financial reporting issues, judgements so as to ensure the integrity of the financial statements and any formal announcements relating to the Company's financial performance.

i) to review and discuss with the external auditors, any suspected fraud or irregularity, or suspected infringement of any Singapore law, rules or regulations, which has or is likely to have a material impact on the Company's operating results or financial position, and Management's response.

j) to report to the Board its findings from time to time on matters arising and requiring the attention of the Committee.

k) to review the Interested Person Transactions

l) to undertake such other reviews and projects as may be requested by the Board.

m) to undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

n) to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor.

o) to ensure arrangements are in place for staff to raise concerns in confidence, and that there is an independent investigation of such matters and appropriate follow-up action.

The AC has explicit authority to investigate any matters within its terms of reference, full access to and co-operation by the management and has full discretion to invite any Director or executive officers to attend its meetings.

The AC meets with the external auditors and internal auditors, in each case without the presence of the management, at least twice to review the overall scope and results of external and internal audits, and the assistance that was given by the management to the external auditors. The AC met with the external auditors without the presence of management on 27 February 2015 and 12 August 2015. The AC has reasonable resources to enable it to discharge its function properly.

***Audit Committee Confirmation***

***The Listing Rule 1207(6) (a) and (b)***
The Audit Committee has reviewed the aggregate amount of fees paid to the external auditors. All audit and non-audit services provided by the auditors are shown in Notes to the Financial Statements - 31 December 2015, Note 21, page 59 of the Annual Report. For non-audit fees paid to the external auditors of the Company, based on the annual review conducted by the AC on the volume of non-audit services provided by the external auditors to satisfy the AC that the nature and extent of such services will not prejudice the independence of the external auditors, the AC is satisfied with the external auditors' confirmation of their independence.

The AC has recommended to the Board that BDO LLP be nominated for re-appointment as external auditors at the forthcoming AGM of the Company.

The Company is in compliance with Rule 712 and Rule 715 (1) of the SGX-ST Listing Manual on the appointment of the same auditing firm in Singapore to audit its account and its Singapore-incorporated subsidiaries and Rule 716(1) on the appointment of different auditing firms for its foreign-incorporated subsidiaries.

The AC has put in place whistle-blowing procedures for all employees to raise concerns in confidence about possible serious corporate improprieties in matters of financial reporting or other matters. Procedures contain submission, assessment, and investigation of incidents, retention of records and protection of whistle-blowers. To ensure independent investigation of such matters and for appropriate follow-up action, all reports are to be sent to Mr Tan Kok Hiang, Non-Executive and Lead Independent Director and Chairman of the AC and RC. Details of the whistle-blowing procedures and arrangements have been made available to all employees. The copy of the mentioned procedures is also available on the Company's intranet. There were no reported incidents pertaining to whistle-blowing for FY2015.

No former partner or director of the Company's existing auditing firm or auditing corporation is a member of the AC. Each member of the AC abstained from voting on any transactions and make any recommendation and/or participate in a discussion on matters in which he is interested.

**Review of interested person transactions**

The AC has reviewed interested person transactions of the Group for FY2015 and reported its findings to the Board. Please refer to page 77 of the annual report for further details on the interested person transactions of the Group for FY2015.

***Internal Audit***

***Principle 13:***
***The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.***

The AC approves the hiring, removal, evaluation and compensation of the internal auditors. For FY 2015, the internal audit function of the Company was outsourced to D' Ark Services Pte Ltd. The internal auditor reports primarily to the chairman of the AC and has full access to the documents, record, properties and personnel of the Company and of the Group.

The Board recognises the importance of maintaining a system of internal control processes to safeguard Shareholders' investments and the Group's business and assets. The Board notes that no system 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 annual conduct of audits by the internal auditors assesses the effectiveness of the Group's internal control procedures and provides reasonable assurance to the AC and the management that the Group's risk management, controls and governance processes are adequate and effective.

The AC is satisfied that the internal audit function has adequate resources to perform its function effectively and is staffed by suitably qualified and experienced professionals with the relevant experience.

The internal audit work carried out in FY 2015 was guided by the International Standards for the Professional Practice of Internal Auditing (IIA Standards) laid down by the International Professional Practices Framework issued by the Institute of Internal Auditors.

On an annual basis, the AC reviews the internal audit program of the Group so as to align it with the changing needs and risk profile of the Group's activities.

During the year, the Board of Directors and the Audit Committee have reviewed the adequacy of the Group's internal controls, including financial, operational, compliance and management information system controls, as well as risk management system. Based on the reviews conducted, the Board of Directors, with the concurrence of Audit Committee, is of the opinion that the system of internal controls in place is adequate in meeting the current scope of the Group's business operations.

## Shareholder Rights and Responsibility

***Shareholder Rights***

***Principle 14:***
***Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' right, and continually review and update such governance arrangements.***

***Communication with Shareholders***

***Principle 15:***
***Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.***

The Group's corporate governance culture and awareness promotes fair and equitable treatment of all shareholders. All shareholders enjoy specific rights under the Companies Act and the Articles of Association of the Company. All shareholders are treated fairly and equitably.

The Group respect the equal information rights of all shareholders and is committed to the practice of fair, transparent and timely disclosure.

Shareholders are given the opportunity to participate effectively and vote at general meetings of the Company. At general meetings, shareholders will be informed of the rules, voting procedures relating to the general meetings.

The Board is mindful of the obligation to provide timely and fair disclosure of material information in accordance with the Corporate Disclosure Policy of the SGX-ST.

The Board welcomes the views of Shareholders on matters affecting the Company, whether at Shareholders' meetings or on an ad hoc basis. At AGMs, shareholders are given the opportunity to air their views and to ask the Directors and Management questions regarding the Group.

Besides telephone calls from the shareholders, they are encouraged to e-mail the Company's Investor Relations at its e-mail address, **ir@lht.com.sg** for any investor relations' issues. The Board and the Audit Committee are of the view that it has adequate audit and accountability to the Shareholders and the Management is accountable to the Board as in line with Principle 6.

Currently, the group does not have a concrete dividend policy at present. The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate.

***Conduct of Shareholder Meetings***

***Principle 16:***
***Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.***

All Shareholders receive the annual report and the notice of AGM (the "**Notice of AGM**"). The Notice of AGM is advertised in the newspapers and published via SGXNET.

All registered shareholders are invited to participate and given the right to vote on resolutions at general meetings. Every matter requiring shareholders' approval is proposed as a separate resolution. Each item of special business included in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution. The Proxy form is sent with the notice of AGM to all shareholders.

The Articles of Association of the Company allow members of the Company to appoint not more than two proxies to attend and vote on their behalf. As the authentication of shareholder's identity information and the other related security issue still remain a concern, the Company has decided, for the time being, not to implement voting in absentia by mail, email or fax.

All Directors, in particular the Chairperson of the Audit, Remuneration, Nominating Committees are in attendance at the Company's AGM to address shareholders' questions relating to the work of these Committees.

The management, Company Secretary, the external auditors, BDO LLP and legal advisors (if necessary) are also invited to attend the general meeting. The procedures of general meetings provide shareholders the opportunity to ask question relating to each resolution tabled for approval and open communication are encouraged by the shareholders with the Director on their views on matters relating to the Company and its operations.

## Dealings in Securities

The Company has in place an internal policy in relation to dealings in the Company's securities by its officers. The Company has informed its Directors and Officers of the Group not to deal in the Company's shares whilst they are in possession of unpublished material price sensitive information and during the period commencing at least one month before the announcement of the Company's financial results until one day after the announcement of such financial results. The Directors and Officers of the Group are expected to observe the insider trading laws at all times when dealing in securities even when dealing in securities within permitted trading period and are strongly discouraged to deal in the Company's securities on short-term consideration.

# Sustainability Report

Corporate Social Responsibility (CSR) has always been an important part of the Group's commitment as a good corporate citizen for acting responsibly in all areas of our operations. The Group recognizes that the critical success factor in achieving our vision is determined by our ability to create and build a long-term sustainable value for all our stakeholders. By incorporating best practices, we aim to minimize the impact on the environment while continuing to deliver excellent products and services to the consumer and customer, and foster a safe and healthy working environment for our employees. The Group remains committed to become a sustainable and profitable organization who is also environmentally and socially responsible.

## Eco Sustainability for Timber Industry

Timber products are completely renewable. Its raw materials originate from the forest and it utilizes renewable source of energy, which is the sun, to produce. Once these raw materials are harvested for timber products manufacturing, the resource could be replanted and replenished for generations to come. Despite all this, environmental consequences are felt during deforestations. If trees are not harvested, they can continue to sequester and store carbon dioxide through photosynthesis. In addition, there are energy losses associated with deforestation and transportation of these raw materials to the various industries for use. Lastly, the methods of treating wood waste such as dumping and incineration are generally environmentally unfriendly. The former adds to land pollution while the latter releases carbon dioxide when the wood is combusted.

## Timber Sustainable Development

Wood and timber waste includes pallets, crates, boxes, furniture and wood planks that can be disposed by dumping or burning or recycling. In land-scarce environment like Singapore, dumping is not a viable option, hence wood is generally incinerated at incineration plants. While incineration is an effective way in handling waste, carbon dioxide is released while wood waste is being combusted, hence causing air pollution. The Group's wood waste recycling facility makes use of wood waste by grinding them into wood chips for manufacturing of new technical (recycled) wood, or into biomass as an energy source to generate power.

## Zero Waste management

In the effort to improve environmental sustainability, the Group developed a solution by recycling wood waste into a usable raw material for manufacturing of its products. The process is to shred various types of waste woods into wood chips and remove its moist by means of drying. The wood chips are then mixed with glue and sent to the pressing station for molding into the final product, called technical (or recycled) wood. Our uniquely patented Technical Wood® is used as a raw material to manufacture products such as pallets, crates, doors and wooden flooring. This product helps contribute to the green profile of companies which purchase them. The remainder of wood chips not used for technical wood are gathered into biomass wood chips which are supplied to a power plant to be used as energy source.

## Health and Safety

The Group remains committed to zero tolerance on the importance of health and safety at the workplace – the core principle behind our human resource management policies. In compliance with regulations of safety, health and risk management, the Group has engaged professional consultants to regularly conduct risk assessments on all our plants. Emergency plans like fire drill exercises and work safety procedures covering a wide range of operational activities are conducted regularly in our premises. The Fire Safety Committee and Workplace Safety and Health Committee meet up monthly to discuss how safety procedures could be improved to ensure safety regulations are strictly complied to. With integrated efforts from our safety committee, safety manager and employees, we believe that work place within the Group continues to be a safe and healthy environment for everyone. The Group has been in close collaboration with the Singapore Civil Defence Force and Singapore Police Force in launching One Community @ Sungei Kadut Industrial Estate and have taken part in joint exercises at our premise to showcase the community's safety preparedness.

# Sustainability Report

## Policies and Commitments

We are committed to continuously improving our environment, health and safety activities with the following policies, procedures and system revisions in place.

- Ensure good corporate governance and compliance practices;
- Maintain high standard of transparency on reporting;
- Develop and enhance products and services to our customers' satisfaction through quality and innovation;
- Build relationship and maximize shareholder returns through strong prudent strategies;
- Provide training to ensure our workforce to perform high standard of integrity and productivity;
- Ensure all workplace safety and health regulations are strictly complied; and
- Improve environmentally sustainable management and business practices.

## Awards

The Group has been awarded the Green Label Scheme by the Singapore Environment Council for its Technical Wood product and Greenflo products. The Group was awarded the Sustainability Award by the Singapore Business Federation in 2012, SMF Business Model Innovation Award by Singapore manufacturing Federation and SSWG Merit Award by Singapore Police Force in 2014.

# Statistics of Shareholdings

As at 11 March 2016

## SHAREHOLDERS' INFORMATION AS AT 11 MARCH 2016

| | | |
|---|---|---|
| Issued and fully paid-up capital | : | $24,620,615 |
| No. of shares | : | 53,244,997 shares |
| Class of shares | : | Ordinary shares |
| Voting rights | : | One vote per share |
| Treasury Shares | : | Nil |

## SUBSTANTIAL SHAREHOLDERS

as recorded in the Register of Substantial Shareholders

| Name of Substantial Shareholders | Number of Shares Direct Interest | % | Deemed Interest | % |
|---|---|---|---|---|
| Neo Koon Boo | 12,098,147 | 22.72 | – | – |
| Tan Kim Sing | 9,671,205 | 18.16 | *16,250 | 0.03 |
| Yap Mui Kee | 6,605,032 | 12.40 | – | – |
| Teo Beng Choo | 5,097,625 | 9.58 | – | – |

(a) *16,250 shares held by spouse of Mr. Tan Kim Sing, Mdm Ng Siew Yeng

## DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholding | | | Number of Shareholders | % | Number of Shares | % |
|---|---|---|---|---|---|---|
| 1 | - | 99 | 12 | 0.26 | 590 | 0.00 |
| 100 | - | 1,000 | 3,286 | 70.89 | 1,057,725 | 1.99 |
| 1,001 | - | 10,000 | 1,147 | 24.75 | 3,353,900 | 6.30 |
| 10,001 | - | 1,000,000 | 183 | 3.95 | 11,235,949 | 21.10 |
| 1,000,001 | | and above | 7 | 0.15 | 37,596,833 | 70.61 |
| | | Total | 4,635 | 100.00 | 53,244,997 | 100.00 |

# Statistics of Shareholdings

As at 11 March 2016

## TWENTY LARGEST SHAREHOLDERS

| No. | Name of Shareholders | Number of Shares | % |
|---|---|---|---|
| 1. | Neo Koon Boo | 12,098,147 | 22.72 |
| 2. | Tan Kim Sing | 9,671,205 | 18.16 |
| 3. | Yap Mui Kee | 6,605,032 | 12.40 |
| 4. | Teo Beng Choo | 5,097,625 | 9.58 |
| 5. | Lau Koi Fong @ Lau Thim Thai | 2,099,797 | 3.94 |
| 6. | Yeo Boon Chan | 1,069,040 | 2.01 |
| 7. | DB Nominees (S) Pte Ltd | 1,002,237 | 1.88 |
| 8. | Jonathan Chadwick | 878,000 | 1.65 |
| 9. | Billy Neo Kian Wee (Billy Liang Jianwei) | 856,000 | 1.61 |
| 10. | Morph Investments Ltd | 645,000 | 1.21 |
| 11. | DBS Nominees Pte Ltd | 469,850 | 0.88 |
| 12. | Lim Kwee Poh | 416,500 | 0.78 |
| 13. | Teo Ting Yue | 350,000 | 0.66 |
| 14. | Seah Chong Teck | 300,750 | 0.56 |
| 15. | OCBC Securities Private Ltd | 286,362 | 0.54 |
| 16. | Gunawan Yacup | 277,000 | 0.52 |
| 17. | Neo Kah Seng | 259,750 | 0.49 |
| 18. | Leong Hwei Min | 250,000 | 0.47 |
| 19. | Ng Boon Guat | 250,000 | 0.47 |
| 20. | Phillip Securities Pte Ltd | 245,387 | 0.46 |
| | Total | 43,127,682 | 80.99 |

**Free Float**

Based on information available to the Company as at 11 March 2016, approximately 34.12% of the issued ordinary shares of the Company were held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of LHT Holdings Limited ("the Company") will be held at 27 Sungei Kadut Street 1, Singapore 729335 on Friday, 29 April 2016 at 3.30 p.m. for the following purposes:

## AS ORDINARY BUSINESS

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

2. To re-elect Dr Wu Chiaw Ching who is retiring pursuant to Article 103 of the Company's Articles of Association. **[See Explanatory Note (i)]** **(Resolution 2)**

3. To re-elect Ms Yap Mui Kee who is retiring pursuant to Article 103 of the Company's Articles of Association. **(Resolution 3)**

4. To re-appoint Mr Neo Koon Boo as Director of the Company. **[See Explanatory Note (ii)]** **(Resolution 4)**

5. To declare a first and final one-tier tax exempt dividend of S$0.03 (2014: S$0.007) per ordinary share for the year ended 31 December 2015. **(Resolution 5)**

6. To approve the payment of Directors' fees of S$135,000 for the year ended 31 December 2015 (2014: S$135,000). **(Resolution 6)**

7. To re-appoint Messrs BDO LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 7)**

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

## AS SPECIAL BUSINESS

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

9. **Authority to allot and issue shares**

"That pursuant to Section 161 of the Companies Act, Chapter 50 (the "Act"), the Articles of Association and the listing rules of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the directors of the Company to:

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

(ii) make or grant offers, agreements, or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of 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):

(i) issue additional instruments as adjustments in accordance with the terms and conditions of the Instruments made or granted by the directors while this Resolution was in force; and

(ii) issue Shares in pursuance of any Instruments made or granted by the directors while this Resolution was in force or such additional Instruments in (b)(i) above, provided that:

(1) the aggregate number of Shares to be issued pursuant to this Resolution (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per cent (50%) of the total number of issued Shares (excluding treasury shares, if any) at the time of the passing of this Resolution (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares issued other than on a pro rata basis to existing shareholders (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed twenty per cent (20%) of the Company's total number of issued Shares (excluding treasury shares, if any) (as calculated in accordance with sub-paragraph (2) below); and

(2) (subject to such manner of 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, if any) shall be calculated based on the total number of issued Shares (excluding treasury shares, if any) at the time of the passing of this Resolution, after adjusting for:-

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

  (b) new Shares arising from the exercise of share options or vesting of share awards outstanding or subsisting at the time this Resolution is passed, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the SGX-ST Listing Manual; and

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

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the listing rules of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is the earlier." **[See Explanatory Note (iii)]** **(Resolution 8)**

By Order of the Board

Sally Yap Mei Yen
Company Secretary

Singapore, 8 April 2016

**Explanatory Notes:**

(i) Dr Wu Chiaw Ching, if re-elected, will remain as a member of the Company's Audit Committee, Nominating Committee and Remuneration Committee. Dr Wu Chiaw Ching will be considered as Independent Director of the Company.

(ii) Mr Neo Koon Boo who is over the age of 70 was re-appointed as Director to hold office from the date of the last Annual General Meeting (held on 24 April 2015) until this Annual General Meeting pursuant to Section 153(6) of the Act. Section 153(6) of the Act was repealed when the Companies (Amendment) Act 2014 came into effect on 3 January 2016. As his appointment lapses at this Annual General Meeting, Mr Neo Koon Boo will have to be re-appointed to continue in office. Upon his re-appointment at the conclusion of this Annual General Meeting, going forward, Mr Neo Koon Boo's re-appointment will no longer be subject to shareholders' approval under Section 153(6) of the Act as repealed. Mr Neo Koon Boo will then be subject to retirement by rotation under the Company's Articles of Association. Upon his re-appointment at the conclusion of this Annual General Meeting, Mr Neo Koon Boo will remain as an Executive Chairman of the Board of Directors.

(iii) **Resolution 8**, if passed, will empower the Directors from the date of the above Meeting until the date of the next annual general meeting, to issue shares and convertible securities in the Company. The number of shares and convertible securities that the Directors may allot and issue under this Resolution would not exceed fifty per cent (50%) of the total number of issued shares (excluding treasury shares, if any) of the Company at the time of the passing of this Resolution. For issue of shares and convertible securities (other than on a pro rata basis to all shareholders), the aggregate number of shares and convertible securities to be issued shall not exceed twenty per cent (20%) of the total number of issued shares (excluding treasury shares, if any) of the Company.

**Notes:**

1. A Member (other than a Relevant Intermediary) entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. A member who is Relevant Intermediary entitled to attend and vote at the Annual General Meeting is entitled to appoint more than two (2) proxies to attend and vote in his/her stead, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two (2) proxies, the number and class of shares to be represented by each proxy must be stated.

   "Relevant Intermediary" means:

   (a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (b) a person holding a capital markets services license to provide custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore and who holds shares in that capacity; or

(c) the Central Provident Fund Board ("CPF Board") established by the Central Provident Fund Act, Chapter 36 of Singapore, 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.

3. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 27 Sungei Kadut Street 1, Singapore 729335 not less than forty-eight (48 ) hours before the time appointed for holding the Meeting.

## NOTICE OF BOOKS CLOSURE AND DIVIDEND PAYMENT DATE

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of LHT Holdings Limited ("the Company") will be closed on 18 May 2016 for the preparation of dividend warrants for the first and final one-tier tax exempt dividend of S$0.03 per ordinary share for the financial year ended 31 December 2015.

Duly completed and registrable transfers received by the Company's Share Registrar, B.A.C.S. Private Limited, at 63 Cantonment Road, Singapore 089758 up to 5.00 p.m. on 17 May 2016 will be registered to determine Members' entitlements to the said dividend.

Members whose Securities Accounts with The Central Depository (Pte) Ltd are credited with shares at 5.00 p.m. on 17 May 2016 will be entitled to the proposed dividend.

The proposed dividend, if approved by the Members at the Annual General Meeting to be held on 29 April 2016, will be paid on 26 May 2016.

By Order of the Board

Sally Yap Mei Yen
Company Secretary

Singapore, 8 April 2016

## PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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| |
|---|
| **IMPORTANT**<br>1. For relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see Note 3 for the definition of "relevant intermediary")<br>2. For investors who have used their CPF monies to buy shares in the Company, this Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them.<br>3. Please read the notes to the Proxy Form. |

# LHT HOLDINGS LIMITED

Company Registration No. 198003094E
(Incorporated in the Republic of Singapore)

## PROXY FORM

*(Please see notes overleaf before completing this Form)*

I / We, ______________________________________________ (Name)

of ______________________________________________ (Address)

being a member/members of LHT HOLDINGS LIMITED (the "Company"), hereby appoint:

| Name | NRIC / Passport Number | Proportion of Shareholdings (%) |
|---|---|---|
| Address | | |

and /or (delete as appropriate)

| Name | NRIC / Passport Number | Proportion of Shareholdings (%) |
|---|---|---|
| Address | | |

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 29 April 2016 at 27 Sungei Kadut Street 1, Singapore 729335 at 3.30 p.m. and at any adjournment thereof. The proxy is to vote on the business before the Meeting as indicated below. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her discretion, as he/she will on any other matter arising at the Meeting:

| No. | Resolutions relating to: | For | Against |
|---|---|---|---|
| 1 | Adoption of Directors' Statement, Auditors' Report and Audited Financial Statements for the year ended 31 December 2015 | | |
| 2 | Re-election of Dr Wu Chiaw Ching as a Director of the Company | | |
| 3 | Re-election of Ms Yap Mui Kee as a Director of the Company | | |
| 4 | Re-appointment of Mr Neo Koon Boo as a Director of the Company | | |
| 5 | Approval of first and final dividend of S$0.03 one-tier tax exempt dividend per ordinary share | | |
| 6 | Approval of Directors' fees amounting to S$135,000 | | |
| 7 | Re-appointment of Messrs BDO LLP as Auditors | | |
| 8 | Authority to allot and issue new shares | | |

(Please indicate with a cross [X] in the space provided whether you wish your vote to be cast "For" or "Against" the Resolutions as set out in the Notice of the Meeting.)

Dated this ______________ day of ______________ 2016

| Total number of Shares in: | No. of Shares |
|---|---|
| (a) Depository Register | |
| (b) Register of Members | |

______________________________________________

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

Fold the flap for sealing

Please affix stamp here

The Company Secretary
**LHT HOLDINGS LIMITED**
27 Sungei Kadut Street 1
Singapore 729335

2nd fold

**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 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A Member of the Company (other than a Relevant Intermediary) entitled to attend and vote at a Meeting of the Company is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a Member of the Company.
3. A member who is Relevant Intermediary entitled to attend and vote at the Annual General Meeting is entitled to appoint more than two (2) proxies to attend and vote in his/her stead, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two (2) proxies, the number and class of shares to be represented by each proxy must be stated.
   "Relevant Intermediary" means:
   (a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;
   (b) a person holding a capital markets services license to provide custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore and who holds shares in that capacity; or
   (c) the Central Provident Fund Board ("CPF Board") established by the Central Provident Fund Act, Chapter 36 of Singapore, 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. Where a Member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy. If no such proportion or number is specified the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named.
5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 27 Sungei Kadut Street 1, Singapore 729335 not less than forty-eight (48) hours before the time appointed for the Annual General Meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.
7. A corporation which is a Member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

3rd fold

**General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the Member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Meeting, 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 accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 8 April 2016.

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**LHT HOLDINGS LIMITED**
(Company Registration Number: 198003094E)

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http://www.lht.com.sg
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