



HAFARY HOLDINGS LIMITED
合發利控股有限公司

Company Registration No. 200918637C
Registered Address: 105 Eunos Avenue 3, Hafary Centre, Singapore 409836

Unaudited Financial Statements and Dividend Announcement
For the Second Quarter ("2Q2017) and Half Year ("HY2017")
Ended 30 June 2017

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1(a)(i) Statement of comprehensive income (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group			Group		
	Unaudited 2Q2017 (3 months) S\$'000	Unaudited 2Q2016 (3 months) S\$'000	Increase/ (Decrease) %	Unaudited HY2017 (6 months) S\$'000	Unaudited HY2016 (6 months) S\$'000	Increase/ (Decrease) %
	Revenue	29,818	27,453	8.6	55,091	49,219
Dividend Income	-	12	N.M.	-	12	N.M.
Interest Income	14	21	(33.3)	35	38	(10.3)
Other Gains	437	179	144.1	227	454	(50.0)
Changes in Inventories of Finished Goods	1,898	385	393.0	1,842	520	254.2
Purchases and Related Costs	(19,349)	(16,756)	15.5	(34,284)	(29,962)	14.4
Employee Benefits Expenses	(4,545)	(4,169)	9.0	(8,908)	(8,425)	5.7
Amortisation and Depreciation Expense	(1,523)	(904)	68.5	(3,036)	(1,778)	70.8
Impairment Losses	(507)	(31)	1,535.5	(834)	(228)	265.8
Other Losses	(512)	(226)	126.5	(254)	(348)	(27.0)
Finance Costs	(876)	(576)	52.1	(1,730)	(1,222)	41.6
Other Expenses	(2,662)	(2,702)	(1.5)	(5,743)	(5,398)	6.4
Share of Profit from an Equity-Accounted Associate	788	416	89.4	1,252	620	101.9
Share of Profit (Loss) from an Equity-Accounted Joint Venture	14	19	(26.3)	(163)	(71)	115.5
Profit Before Tax	2,995	3,121	(4.0)	3,505	3,432	2.1
Income Tax Expense	(445)	(440)	1.1	(517)	(482)	7.3
Profit, Net of Tax	2,550	2,681	(4.9)	2,988	2,950	1.3
Other Comprehensive Loss:						
Items that may be reclassified subsequently to Profit or Loss:						
Exchange Differences on Translating Foreign Operations, Net of Tax	(62)	(255)	(75.7)	(459)	(957)	(62.0)
Other Comprehensive Loss for the Period, Net of Tax	(62)	(255)	(75.7)	(459)	(957)	(62.0)
Total Comprehensive Income	2,488	2,426	2.6	2,529	1,993	26.9
Profit, Net of Tax Attributable to:						
- Owners of the Parent	2,656	2,517	5.5	3,111	2,705	15.0
- Non-Controlling Interests	(106)	164	N.M.	(123)	245	N.M.
	2,550	2,681	(4.9)	2,988	2,950	1.3
Total Comprehensive Income Attributable to:						
- Owners of the Parent	2,594	2,262	14.7	2,652	1,748	51.7
- Non-Controlling Interests	(106)	164	N.M.	(123)	245	N.M.
	2,488	2,426	2.6	2,529	1,993	26.9

Notes:

(1) N.M. = Not meaningful.

(2) 2Q2016 = Second quarter ended 30 June 2016

(3) HY2016 = Half year ended 30 June 2016

HAFARY HOLDINGS LIMITED
For the Period Ended 30 June 2017

1(a)(ii) Profit, Net of Tax and Total Comprehensive Income is arrived after crediting/ (charging) the following:

	Group			Group		
	Unaudited	Unaudited	Increase/ (Decrease) %	Unaudited	Unaudited	Increase/ (Decrease) %
	2Q2017 (3 months) S\$'000	2Q2016 (3 months) S\$'000		HY2017 (6 months) S\$'000	HY2016 (6 months) S\$'000	
Interest Expense on Borrowings	(876)	(576)	52.1	(1,730)	(1,222)	41.6
Interest Income on Borrowings	14	21	(33.3)	35	39	(10.3)
Amortisation and Depreciation Expense	(1,523)	(904)	68.5	(3,036)	(1,778)	70.8
Allowance for Impairment of Trade Receivables	(98)	(116)	(15.5)	(183)	(116)	57.8
Allowance for Impairment of Trade Receivables, Reversal	-	32	N.M.	-	58	N.M.
Bad Debts Recovered - Trade Receivables	32	35	(8.6)	36	38	(5.3)
Bad Debts Written-Off - Trade Receivables	-	(16)	N.M.	(10)	(31)	(67.7)
Net Allowance for Impairment of Inventories	(441)	34	N.M.	(677)	(177)	282.5
Foreign Exchange Adjustment (Loss) Gain	(509)	(227)	124.2	85	210	(59.5)
Fair Value Gain (Loss) on Derivative Financial Instruments	360	119	202.5	(251)	(348)	(27.9)
Adjustment for Over Provision of Tax in respect of Prior Years	27	-	N.M.	79	5	1,480.0
(Loss) Gain on Disposal of Plant and Equipment	(3)	8	N.M.	(4)	8	N.M.
Dividend Income	-	12	N.M.	-	12	N.M.

1(b)(i) Statement of financial position (for the issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	Unaudited 30 June 2017 S\$'000	Audited 31 December 2016 S\$'000	Unaudited 30 June 2017 S\$'000	Audited 31 December 2016 S\$'000
ASSETS				
Non-Current Assets:				
Property, Plant and Equipment	113,066	114,371	200	234
Other Asset	4,429	4,597	-	-
Investments in Subsidiaries	-	-	9,239	9,239
Investment in Associate	8,218	7,088	-	-
Investment in Joint Venture	119	272	-	-
Investment Property	4,256	4,265	-	-
Other Financial Assets	2,686	2,569	488	488
Total Non-Current Assets	132,774	133,162	9,927	9,961
Current Assets:				
Inventories	52,460	50,876	-	-
Trade and Other Receivables	33,513	33,615	26,913	26,864
Derivative Financial Instruments	41	292	-	-
Other Assets	3,885	4,250	3	4
Other Financial Asset	-	656	-	-
Cash and Cash Equivalents	5,785	4,438	10	30
Total Current Assets	95,684	94,127	26,926	26,898
Total Assets	228,458	227,289	36,853	36,859
EQUITY AND LIABILITIES				
Equity:				
Share Capital	26,634	26,634	26,634	26,634
Retained Earnings (Accumulated Losses)	28,170	27,204	34	(243)
Other Reserves	(60)	337	296	234
Equity, Attributable to Owners of the Parent	54,744	54,175	26,964	26,625
Non-Controlling Interests	3,236	3,552	-	-
Total Equity	57,980	57,727	26,964	26,625
Non-Current Liabilities:				
Deferred Tax Liabilities	513	509	-	-
Other Financial Liabilities	87,851	90,039	71	88
Total Non-Current Liabilities	88,364	90,548	71	88
Current Liabilities:				
Provision	552	523	-	-
Income Tax Payable	1,372	1,651	-	1
Trade and Other Payables	21,330	22,160	9,785	10,112
Other Financial Liabilities	57,612	53,658	33	33
Other Liabilities	1,248	1,022	-	-
Total Current Liabilities	82,114	79,014	9,818	10,146
Total Liabilities	170,478	169,562	9,889	10,234
Total Equity and Liabilities	228,458	227,289	36,853	36,859

1(b)(ii) Aggregate amount of the Group's borrowings and debt securities as at the end of the current financial period reported on with comparative figures as at the end of the immediately preceding financial year.

Amount repayable in one year or less, or on demand

	Group			
	Unaudited		Audited	
	As at 30 June 2017		As at 31 December 2016	
	Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000	
Bank Loans	32,777	-	29,399	-
Trust Receipts and Bills Payable to Banks	24,363	-	23,733	-
Finance Lease Liabilities	472	-	528	-
	57,612	-	53,658	-

Amount repayable after one year

	Group			
	Unaudited		Audited	
	As at 30 June 2017		As at 31 December 2016	
	Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000	
Bank Loans	87,243	-	89,380	-
Finance Lease Liabilities	608	-	659	-
	87,851	-	90,039	-

Details of collaterals relating to the above borrowings

Bank Loans

These are covered by:

- corporate guarantees given by Hafary Holdings Limited and a subsidiary;
- secured by first legal mortgage over leasehold properties; and
- legal assignment of current and future rental proceeds and insurance proceeds in respect of a leasehold property.

Borrowing drawn down in relation to the acquisition and development of leasehold property at 18 Sungei Kadut Street 2, Sungei Kadut Industrial Estate, Singapore 729236 by a subsidiary is secured by first legal mortgage over the leasehold property. It is also covered by joint and several corporate guarantees from Hafary Holdings Limited and a subsidiary, personal guarantees from a director and a substantial shareholder.

Borrowings drawn down in relation to acquisition of freehold property at 532 Balestier Road Singapore 329859 by a subsidiary is secured by first legal mortgage over the freehold property. It is also covered by corporate guarantee from Hafary Holdings Limited and personal guarantee from a director.

Trust Receipts and Bills Payable to Banks

These are covered by corporate guarantees given by Hafary Holdings Limited.

1(c) Statement of cash flows (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group		Group	
	Unaudited 2Q2017	Unaudited 2Q2016	Unaudited HY2017	Unaudited HY2016
	(3 months) S\$'000	(3 months) S\$'000	(6 months) S\$'000	(6 months) S\$'000
Cash Flows From Operating Activities				
Profit Before Income Tax	2,995	3,121	3,505	3,432
Adjustment for:				
Interest Expense	876	576	1,730	1,222
Interest Income	(14)	(21)	(35)	(39)
Dividend Income	-	(12)	-	(12)
Share of Profit from Associate	(788)	(416)	(1,252)	(620)
Share of (Profit) Loss from Joint Venture	(14)	(19)	153	71
Equity-Settled Share-Based Expenses	32	30	62	54
Depreciation of Investment Property	5	-	9	-
Depreciation of Property, Plant and Equipment	1,485	869	2,961	1,710
Amortisation of Other Asset	33	35	66	68
Loss (Gain) on Disposal of Property, Plant and Equipment	3	(8)	4	(8)
Fair Value (Gain) Loss on Derivative Financial Instruments	(360)	(119)	251	348
Net Effect of Exchange Rate Changes In Consolidating Subsidiaries	(173)	118	(235)	24
Operating Cash Flows Before Changes in Working Capital	4,080	4,154	7,219	6,250
Inventories	(1,466)	(439)	(1,584)	(403)
Trade and Other Receivables	(609)	(629)	125	9,541
Other Assets	208	(1,053)	365	(748)
Provision	41	(9)	29	(109)
Trade and Other Payables	2,987	1,105	(1,887)	(4,386)
Other Liabilities	334	357	226	41
Net Cash Flows From Operations	5,575	3,486	4,493	10,186
Income Taxes Paid	(708)	(1,581)	(792)	(1,800)
Net Cash Flows From Operating Activities	4,867	1,905	3,701	8,386
Cash Flows From Investing Activities				
Purchase of Property, Plant and Equipment	(518)	(8,745)	(916)	(18,620)
Purchase of Investment Property	-	(4,279)	-	(4,279)
Proceeds from Disposal of Property, Plant and Equipment	2	17	2	17
Dividend Received from Joint Venture	-	49	-	49
Dividend Received	-	12	-	12
Interest Received	1	10	11	16
Decrease in Other Financial Assets	-	-	656	-
Net Cash Flows Used in Investing Activities	(515)	(12,936)	(247)	(22,805)
Cash Flows From Financing Activities				
Dividends Paid to Equity Owners	(2,145)	(2,145)	(2,145)	(2,145)
Dividends Paid to Non-Controlling Interests	(193)	(348)	(193)	(348)
Capital Contribution from Non-Controlling Interests	-	150	-	150
(Decrease) Increase in Trust Receipts and Bills Payable	(1,022)	(766)	630	(8,199)
Net Amount Due to Related Parties	-	546	437	1,106
Repayment of Finance Lease Liabilities	(166)	(106)	(330)	(178)
Increase from New Borrowings	1,500	12,842	2,500	23,337
Repayment of Bank Loans	(814)	(1,136)	(1,505)	(3,254)
Interest Expense Paid	(904)	(601)	(1,736)	(1,312)
Net Cash Flows (Used In) From Financing Activities	(3,744)	8,436	(2,342)	9,157
Net Increase (Decrease) in Cash and Cash Equivalents	608	(2,595)	1,112	(5,262)
Net Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2)	(39)	(12)	(131)
Cash and Cash Equivalents, Beginning Balance	4,932	5,772	4,438	8,531
Cash and Cash Equivalents, Ending Balance	5,538	3,138	5,538	3,138
Cash and Cash Equivalents in the statement of financial position	5,785	3,138	5,785	3,138
Less: Bank Overdraft	(247)	-	(247)	-
Cash and Cash Equivalents	5,538	3,138	5,538	3,138

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1(d)(i) Statement (for the issuer and Group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

GROUP	Total Equity S\$'000	Attributable to Parent Subtotal S\$'000	Share Capital S\$'000	Retained Earnings S\$'000	Other Reserves (Note 1) S\$'000	Non-Controlling Interests S\$'000
Current Period (Unaudited):						
Opening Balance at 1 January 2017	57,727	54,175	26,634	27,204	337	3,552
Total Comprehensive Income (Loss) for the Period	41	58	-	455	(397)	(17)
Equity-Settled Share-Based Expenses	30	30	-	-	30	-
Closing Balance at 31 March 2017	57,798	54,263	26,634	27,659	(30)	3,535
Total Comprehensive Income (Loss) for the Period	2,488	2,594	-	2,656	(62)	(106)
Equity-Settled Share-Based Expenses	32	32	-	-	32	-
Dividends Paid (Note 2)	(2,145)	(2,145)	-	(2,145)	-	-
Dividends Paid to Non-Controlling Interests	(193)	-	-	-	-	(193)
Closing Balance at 30 June 2017	57,980	54,744	26,634	28,170	(60)	3,236
Previous Period (Unaudited):						
Opening Balance at 1 January 2016	54,798	50,787	26,634	23,324	829	4,011
Total Comprehensive Income (Loss) for the Period	(433)	(514)	-	188	(702)	81
Equity-Settled Share-Based Expenses	24	24	-	-	24	-
Closing Balance at 31 March 2016	54,389	50,297	26,634	23,512	151	4,092
Total Comprehensive Income (Loss) for the Period	2,426	2,262	-	2,517	(255)	164
Capital contribution by Non Controlling Interest	150	-	-	-	-	150
Equity-Settled Share-Based Expenses	30	30	-	-	30	-
Dividends Paid (Note 2)	(2,145)	(2,145)	-	(2,145)	-	-
Dividends Paid to Non-Controlling Interests	(348)	-	-	-	-	(348)
Closing Balance at 30 June 2016	54,502	50,444	26,634	23,884	(74)	4,058

1(d)(i) Statement (for the issuer and Group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

COMPANY	Total Equity S\$'000	Share Capital S\$'000	Retained Earnings S\$'000	Other Reserves (Note 1) S\$'000
Current Period (Unaudited):				
Opening Balance at 1 January 2017	26,625	26,634	(243)	234
Total Comprehensive Income for the Period	2,410	-	2,410	-
Equity-Settled Share-Based Expenses	30	-	-	30
Closing Balance at 31 March 2017	28,065	26,634	2,167	264
Total Comprehensive Income for the Period	12	-	12	-
Equity-Settled Share-Based Expenses	32	-	-	32
Dividends Paid (Note 2)	(2,145)	-	(2,145)	-
Closing Balance at 30 June 2017	26,964	26,634	34	296
Previous Period (Unaudited):				
Opening Balance at 1 January 2016	26,564	26,634	(189)	119
Total Comprehensive Income for the Period	2,336	-	2,336	-
Equity-Settled Share-Based Expenses	24	-	-	24
Closing Balance at 31 March 2016	28,924	26,634	2,147	143
Total Comprehensive Income for the Period	7	-	7	-
Equity-Settled Share-Based Expenses	30	-	-	30
Dividends Paid (Note 2)	(2,145)	-	(2,145)	-
Closing Balance at 30 June 2016	26,816	26,634	9	173

Note 1:

Other Reserves	Group		Company	
	30 June 2017 S\$'000	30 June 2016 S\$'000	30 June 2017 S\$'000	30 June 2016 S\$'000
Foreign Currency Translation Reserve	(356)	(247)	-	-
Equity-Settled Share-Based Compensation Reserve	296	173	296	173
	(60)	(74)	296	173

Note 2:

Dividends on Equity Shares	Unaudited HY2017 S\$'000	Unaudited HY2016 S\$'000

Interim tax exempt (1-tier) dividend paid of:
- 0.5 cent per share on total number of issued ordinary shares of 429,000,000

2,145 2,145

- 1(d)(ii) Details of any changes in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Total Number of Shares	Company			
	Unaudited HY2017		Unaudited HY2016	
	No. of Shares	S\$'000	No. of Shares	S\$'000
At the beginning and end of the reporting period	429,000,000	26,634	429,000,000	26,634

The Company has no outstanding convertibles or treasury shares as at 30 June 2017 and 30 June 2016.

During the period ended 30 June 2017, the number of performance shares granted, vested and cancelled under the Hafary PSP are as follows:

Grant Date	Number of Hafary performance shares				As at 30 June 2017
	As at 1 January 2017	Granted during the period	Vested during the period	Cancelled/Lapsed during the period	
1 August 2014	1,300,000	-	-	-	1,300,000
1 March 2016	250,000	-	-	-	250,000
	1,550,000	-	-	-	1,550,000

On 3 July 2017, the Company issued and allotted 1,550,000 new ordinary shares in the issued and paid-up capital of the Company to the selected eligible employees of the Company pursuant to the vesting of Awards under the Hafary PSP.

- 1(d)(iii) Total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

Company	
Unaudited 30 June 2017	Audited 31 December 2016
429,000,000	429,000,000

- 1(d)(iv) Statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

The Company has no treasury shares as at 30 June 2017 and there were no sale transfer, disposal and/or use of treasury shares during HY2017.

- 1(d)(v) Statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

There was no subsidiary holdings during the current financial period reported on.

- 2 Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.**

The figures have not been audited or reviewed by the Company's auditors.

- 3 Where the figures have been audited or reviewed, the auditor's report (including any qualifications or emphasis of a matter).**

Not applicable.

- 4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group had adopted the new and/or revised Financial Reporting Standards (the "FRS") and Interpretations of FRS ("INT FRS") that are effective for annual periods beginning on or after 1 January 2017. Changes to the Group's accounting policies have been made in accordance with the transitional provisions in the respective FRS and INT FRS. The adoption of the new and/or revised FRS and INT FRS did not result in any substantial changes or significant impact on the Group's financial statements.

Except for the above, the Group has adopted the same accounting policies and methods of computation as presented in the audited financial statements of the Group for the reporting year ended 31 December 2016.

- 5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of the change.**

As mentioned above, changes to the Group's accounting policies have been made in accordance with the transitional provisions in the respective FRS and INT FRS. The adoption of the new and/or revised FRS and INT FRS did not result in any substantial changes or significant impact on the Group's financial statements.

- 6 Earnings per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

Earnings per ordinary share ("EPS") for the period based on profit, net of tax and total comprehensive income attributable to owners of the parent:

	Group		Group	
	Unaudited 2Q2017 (6 months)	Unaudited 2Q2016 (6 months)	Unaudited HY2017 (6 months)	Unaudited HY2016 (6 months)
EPS:				
(a) Basic	0.62 cents	0.59 cents	0.73 cents	0.63 cents
(b) Fully diluted basis	0.62 cents	0.59 cents	0.72 cents	0.63 cents

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

The dilutive effect derives from performance shares. The diluted amount per share is based on the weighted average number of ordinary shares and dilutive ordinary share equivalents outstanding during each period ended. The ordinary share equivalents included in these calculations are: (1) the average number of ordinary shares assumed to be outstanding during the period ended and (2) upon issuance of performance shares which (if any) would have a dilutive effect.

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7 Net asset value (for the issuer and Group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-

- (a) current financial period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Net asset value ("NAV") per ordinary share based on the total number of issued shares	12.8 cents	12.6 cents	6.3 cents	6.2 cents

Note:

NAV per ordinary share is calculated based on 429,000,000 ordinary shares in issue as at 30 June 2017 and 31 December 2016.

8 A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business., including a discussion of the following:-

(a) any significant factors that affected the turnover, costs, and earnings of the Group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and

(b) any material factors that affected the cash flow, working capital, assets or liabilities of the Group during the current financial period reported on.

8(a) Material factors that affected turnover, costs and earnings

Revenue

For 2Q2017, the Group registered a revenue of S\$29.8 million compared to S\$27.5 million during 2Q2016. For HY2017, the Group registered a revenue of S\$55.1 million compared to S\$49.2 million during HY2016.

General segment

For 3 months ended, revenue from the general segment (where customers include home-owners, architecture, interior design and renovation firms) increased by S\$0.4 million or 2.7% from S\$14.7 million during 2Q2016 to S\$15.1 million during 2Q2017. For half year ended, revenue from general segment increased by S\$2.0 million or 8.0% from S\$25.1 million during HY2016 to S\$27.1 million during HY2017.

Project segment

For 3 months ended, revenue from the project segment (where customers include architecture firms, property developers and construction companies) increased by S\$1.9 million or 15.7% from S\$12.1 million during 2Q2016 to S\$14.0 million during 2Q2017. For half year ended, revenue from general segment increased by S\$3.9 million or 17.0% from S\$22.9 million during HY2016 to S\$26.8 million during HY2017.

Interest Income

This pertains to a loan of US\$1 million (equivalent to approximately S\$1.4 million) to an associate, Viet Ceramics International Joint Stock Company ("VCI"), to support their business expansion in Vietnam.

Other Gains

For 2Q2017, other gains comprised mainly of fair value gain on derivative financial instruments of S\$0.4 million. Derivative financial instruments refer to foreign currency forward contracts. These are binding contracts in the foreign exchange market that locks in the exchange rate for the purchase or sale of a currency on a future date.

Purchase of inventories are mainly denominated in United States Dollar (USD) and Euro. The Group entered into foreign currency forward contracts to hedge against fluctuations of exchange rates in USD and Euro. The difference between foreign currency forward contract rates and forward market rates as at period end date would then be recorded under 'Other Gains' or 'Other Losses'.

Other gains during HY2017 mainly comprised of foreign exchange adjustment gains of S\$0.1 million, compensation received of S\$0.1 million and government grant income, such as those from wages credit scheme and temporary employment credit, amounting to of S\$0.1 million.

For 2Q2016, other gains comprised mainly of fair value gains on derivative financial instruments of S\$0.1 million. Other gains during HY2016 mainly comprised of foreign exchange adjustment gains of S\$0.2 million and government grant income, such as those from wages credit scheme and temporary employment credit, amounting to S\$0.2 million.

Other Losses

For 2Q2017, other losses comprised mainly of foreign exchange adjustment losses of S\$0.5 million. Other losses during HY2017 mainly comprised of derivative losses of S\$0.3 million.

For 2Q2016, other losses comprised mainly of foreign exchange adjustment losses of S\$0.2 million. Other losses during HY2016 mainly comprised of derivative losses of S\$0.3 million.

Cost of Sales

Cost of sales is computed based on purchases and related expenses net of changes in inventories of finished goods for the respective financial years.

For 3 months ended, cost of sales increased by S\$1.1 million or 6.6% from S\$16.4 million during 2Q2016 to S\$17.5 million during 2Q2017. For half year ended, cost of sales increased by S\$3.0 million or 10.2% from S\$29.4 million during HY2016 to S\$32.4 million during HY2017.

The gross profit margin (based on revenue from sale of goods (excluding rental and other income), purchase cost of goods and related costs, without taking into account labour costs and overheads) of 40.9% for 2Q2017 (HY2017: 39.9%) has improved slightly compared to 39.0% for 2Q2016 (HY2016: 38.6%).

8(a) Material factors that affected turnover, costs and earnings (Continued)

Employee Benefits Expense

For 3 months ended, employee benefits expense increased by S\$0.4 million or 9.0% from S\$4.2 million during 2Q2016 to S\$4.5 million during 2Q2017. For half year ended, employee benefits expense increased by S\$0.5 million or 5.7% from S\$8.4 million during HY2016 to S\$8.9 million during HY2017. As at 30 June 2017, the Group had 324 employees (including directors) (30 June 2016: 310).

Amortisation and Depreciation Expense

For 3 months ended, amortisation and depreciation expense increased by S\$0.6 million or 68.5% from S\$0.9 million during 2Q2016 to S\$1.5 million during 2Q2017. For half year ended, amortisation and depreciation expenses increased by S\$1.3 million or 70.8% from S\$1.8 million during HY2016 to S\$3.0 million during HY2017. The increase was mainly due to commencement of depreciation of 18 Sungei Kadut Street 2 Singapore 729236 (World Furnishing Hub Pte Ltd) after development of the premise was completed in August 2016.

Impairment Losses

The impairment losses mainly comprised of allowance for impairment of inventories and trade receivables.

The management assesses the collectability of trade receivables regularly, considering various factors such as financial status of the Group's customers and age of trade debts. Impairment on specific trade receivables would be made if the chance of recovery is very low.

Impairment of inventories is assessed quarterly considering the age of inventory items and prevailing market demand of inventory category.

Impairment losses increased by S\$0.5 million from S\$31,000 during 2Q2016 to S\$0.5 million during 2Q2017. For half year ended, impairment losses increased by S\$0.6 million or 265.8% from S\$0.2 million during HY2016 to S\$0.8 million during HY2017. The increase in impairment losses was mainly arising from the increase in allowance for impairment of inventories.

Finance Costs

For 3 months ended, finance costs increased by S\$0.3 million or 52.1% from S\$0.6 million during 2Q2016 to S\$0.9 million during 2Q2017. For half year ended, finance cost increased by S\$0.5 million or 41.7% from S\$1.2 million during HY2016 to S\$1.7 million during HY2017. The increase in finance costs was mainly due to interest expense on bank borrowings to finance acquisition and construction of World Furnishing Hub after its development was completed in August 2016.

Other Expenses

For 3 months ended, other expenses decreased by S\$0.1 million or 1.5% from S\$2.7 million during 2Q2016 to S\$2.6 million during 2Q2017. For half year ended, other expenses increased by S\$0.3 million or 6.4% from S\$5.4 million during HY2016 to S\$5.7 million during HY2017.

8(a) Material factors that affected turnover, costs and earnings (Continued)

Share of Profit from an Equity-Accounted Associate

For 2Q2017, share of profit from associate, VCI, amounted to S\$0.8 million (2Q2016: S\$0.4 million). For HY2017, share of profit from associate amounted to S\$1.3 million (HY2016: S\$0.6 million). The increase in share of profit is due to improved financial performance of VCI under the backdrop of a better economic climate and increased construction activities in Vietnam.

Share of Profit (Loss) from an Equity-Accounted Joint Venture

For 2Q2017, share of profit from joint venture, Melmer Stoneworks Pte. Ltd. ("MSPL"), amounted to S\$14,000 (2Q2016: S\$19,000). For HY2017, share of losses from joint venture was S\$0.2 million (HY2016: S\$0.1 million). Loss reported by MSPL for HY2017 and HY2016 is mainly due to lower level of operations during the first quarter of the year.

Profit Before Income Tax

For 3 months ended, profit before income tax decreased by S\$0.1 million or 4.0% from S\$3.1 million to S\$3.0 million during 2Q2017. For half year ended, profit before income tax increased by S\$0.1 million or 2.1% from S\$3.4 million during HY2016 to S\$3.5 million during HY2017.

Excluding share of profits from associate and joint venture amounting to S\$0.8 million (2Q2016: S\$0.4 million), profit before income tax generated from recurring activities was S\$2.2 million for 2Q2017 (2Q2016: S\$2.7 million). For half year ended, excluding share of profit from associate and joint venture amounting to S\$1.1 million (HY2016: S\$0.5 million), profit before income tax generated from recurring activities was S\$2.4 million for HY2017 (HY2016: S\$2.9 million).

The lower profit before income tax generated from recurring activities was largely due to the increase in depreciation expense, finance costs and employees benefits expense and is partially offset by increase in gross profit.

Other Comprehensive Income

This pertained to foreign exchange difference on translating foreign operations.

Income Tax Expense

The current tax expense is based on the statutory tax rates of the respective countries in which the Group operates and takes into account non deductible expenses and temporary differences. Income tax expense was higher in HY2017 because of higher taxable profits.

8(b) Material factors that affected cash flow, working capital, assets or liabilities

Non-Current Assets

Non-current assets decreased by S\$0.5 million or 0.3% from S\$133.2 million as at 31 December 2016 to S\$132.7 million as at 30 June 2017.

Property, plant and equipment decreased by S\$1.3 million or 1.1% from S\$114.4 million as at 31 December 2016 to S\$113.1 million as at 30 June 2017 mainly due to depreciation expense amounting to S\$3.0 million and foreign exchange loss adjustment amounting to S\$0.1 million. These were partially offset by the addition of property, plant and equipment during the period which include:

- a) Construction cost of leasehold property at 18 Sungei Kadut Street 2 amounting to S\$0.6 million;
- b) Addition of plant and equipment amounting to S\$0.8 million; and
- c) Addition of motor vehicles amounting to S\$0.4 million.

The decrease in other asset (land use rights relating to leasehold land in Foshan, China) amounting to S\$0.2 million was due to foreign exchange loss adjustment of S\$0.1 million and amortisation expense of S\$0.1 million.

The net increase in investment in associate and joint venture amounting to S\$1.0 million pertained to shares of profits of S\$1.1 million from VCI and MSPL during HY2017 and partially offset by exchange differences on translating associate foreign operation S\$0.1 million.

Investment property pertains to 532 Balestier Road Singapore 329859.

Other financial assets pertain to the Group's investment in shares of SMJ International Holdings Limited (Listed on SGX Catalyst) and a life wholesale company in China. The increase of S\$0.1 million from S\$2.6 million as at 31 December 2016 to S\$2.7 million as at 30 June 2017 was due to foreign exchange adjustment.

Current Assets

Current assets increased by S\$1.6 million or 1.7% from S\$94.1 million as at 31 December 2016 to S\$95.7 million as at 30 June 2017.

The increase was mainly due to increase in cash and cash equivalents amounting to S\$1.4 million and inventories amounting to S\$1.6 million. The above increase in current assets was partially offset by a decrease in trade and other receivables by S\$0.1 million, other assets by S\$0.4 million, other financial assets by S\$ 0.7 million and derivative financial instrument by S\$0.2 million.

Derivative financial instruments are outstanding foreign currency forward contracts as at 30 June 2017. The difference between forward contract rates and the forward market rates were adverse to the Group and resulted in a fair value loss. This fair value loss was recorded in profit or loss under other losses and correspondingly recorded as a current asset in statement of financial position.

Other financial assets pertained to investment in short-term (7 to 14 days) fixed income fund, which is designated as available-for-sales financial assets. These financial assets were redeemed in 1Q2017.

Trade receivables turnover as at 30 June 2017 is 98 days compared to 103 days as at 31 December 2016. Inventory turnover day as at 30 June 2017 is 281 days compared to 285 days as at December 2016.

Non-Current Liabilities

Non-current liabilities decreased by S\$2.2 million or 2.4% from S\$90.5 million as at 31 December 2016 to S\$88.3 million as at 30 June 2017. The decrease is mainly due to monthly repayment of loans of S\$1.4 million and reclassification of term loan of S\$0.8 million from non-current to current.

8(b) Material factors that affected cash flow, working capital, assets or liabilities (Continued)

Current Liabilities

Current liabilities increased by S\$3.1 million or 3.9% from S\$79.0 million as at 31 December 2016 to S\$82.1 million as at 30 June 2017.

The increase was mainly attributable to the increase in other financial liabilities of S\$4.0 million and other liabilities of S\$0.2 million which was partially offset by the decrease in trade and other payables by S\$0.8 million and provision for taxation by S\$0.3 million.

Total amount of trade payables and trust receipts and bills payable to banks was S\$37.1 million (31 December 2016: S\$38.2 million). The turnover of the aforesaid items (based on cost of sales) is 185 days as at 30 June 2017 compared to 182 days as at 31 December 2016.

The increase in other financial liabilities was mainly due to loan drawdown amounting to S\$3.4 million and increase in trust receipts and bills payable to banks by S\$0.6 million.

The increase in other liabilities was mainly due to increase in advance payment received from customers.

Other Reserves

This pertain to foreign exchange difference on translating foreign operations and equity-settled share-based compensation reserve.

8(b) Material factors that affected cash flow, working capital, assets or liabilities (Continued)

Cash Flows Review

2Q2017

Net cash flows from operating activities was S\$4.9 million due to operating cash flows before working capital changes of S\$4.1 million and net cash flows from working capital of S\$1.5 million and income taxes paid of S\$0.7 million. The net cash flows from working capital of S\$1.5 million was mainly attributable to increase in trade and other payable of S\$3.0 million, increase in other liabilities of S\$0.3 million and decrease in other assets of S\$0.2 million. This was partially offset by an increase in inventories of S\$1.4 million and increase in trade and other receivables of S\$0.6 million.

Net cash flows used in investing activities amounting to S\$0.5 million for 2Q2017 was attributable to cash outflow for purchase of property, plant and equipment.

Net cash flows used in financing activities amounting to S\$3.7 million for 2Q2017 was mainly attributable by the dividend paid to equity owners and non-controlling interests of S\$2.3 million, decrease in trust receipt and bills payable of S\$1.0 million, repayment of interest expenses of S\$0.9 million and repayment of bank loan and finance lease liabilities of S\$1.0 million. This was partially offset by proceeds from new bank loan of S\$1.5 million.

As a result of the above, there was a net increase of S\$0.6 million in cash and cash equivalents for 2Q2017. Cash and cash equivalents as at 30 June 2017 was S\$5.5 million.

HY2017

Net cash flows from operating activities was S\$3.7 million due to operating cash flows before working capital changes of S\$7.2 million and net cash flows used in working capital of S\$2.7 million and income taxes paid of S\$0.8 million. The net cash flows used in working capital of S\$2.7 million was mainly attributable to an increase in inventories of S\$1.5 million and decrease in trade and other payables of S\$1.9 million. This was partially offset by decrease in other assets of S\$0.4 million, increase in other liabilities of S\$0.2 million and increase in trade and other receivables of S\$0.1 million.

Net cash flows used in investing activities amounting to S\$0.2 million for HY2017 was attributable to cash outflows of S\$0.9 million for purchase of property, plant and equipment and was partially offset by decrease in other financial assets by S\$0.7 million.

Net cash flows used in financing activities amounting to S\$2.3 million for HY2017 was mainly attributable by the dividend paid to equity owners and non-controlling interests of S\$2.3 million, repayment of interest expenses of S\$1.7 million and repayment of bank loan and finance lease liabilities of S\$1.8 million.

This was partially offset by the following:

- a) Proceeds from new bank loan of S\$2.5 million;
- b) Increase in trust receipt and bills payables of S\$0.6 million; and
- c) Increase in net amount due to related parties of S\$0.4 million.

As a result of the above, there was a net increase of S\$1.1 million in cash and cash equivalents for HY2017. Cash and cash equivalents as at 30 June 2017 was S\$5.5 million.

- 9 Where a forecast, or a prospect statement, had been previously disclosed to shareholders, any variance between it and the actual results.

None.

- 10 A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the Group operates and any known factors or events that may affect the Group in the next reporting period and the next 12 months.

The Building and Construction Authority of Singapore (BCA) projected construction demand of between S\$28 billion and S\$35 billion for 2017, with about 70% contributed by public sector demand. Key projects in 2017 include a steady pipeline of new public housing construction, upgrading works for HDB flats and redevelopment projects.

For 2018 and 2021, BCA expects construction demand to range between S\$26 billion and S\$37 billion each year, with about 65% from public projects and the remaining from private projects.

The Group remains vigilant to market changes and alert to take on any opportunities locally and overseas to grow our business.

11 Dividend

(a) Dividend declared for the current financial period

No dividend has been declared for 2Q2017.

(b) Dividend declared for the corresponding period of the immediately preceding financial year

No dividend has been declared for 2Q2016.

(c) Date Payable

Not applicable.

(d) Books closure date

Not applicable.

12 If no dividend has been declared/recommended, a statement to that effect.

No dividend has been declared/ recommended for 2Q2017.

13 Interested Person Transactions ("IPTs")

Name of Interested Persons and Nature of IPTs	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000)	
	Conducted under shareholders' mandate pursuant to Rule 920	Not conducted under shareholders' mandate pursuant to Rule 920
	HY2017 S\$'000	HY2017 S\$'000
Purchases of goods:		
MML Marketing Pte Ltd	581	-
Malaysian Mosaics Sdn Bhd	4,254	-

General mandate for IPT was renewed at the Annual General Meeting held on 11 April 2017.

14 CONFIRMATION BY THE BOARD PURSUANT TO RULE 705(5) OF THE LISTING MANUAL

We, Low Kok Ann and Low See Ching, being Directors of the Company, do hereby confirm, on behalf of the Board of Directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the interim financial statements for 2Q2017 and HY2017 to be false or misleading in any material aspect.

15 CONFIRMATION PURSUANT TO RULE 720(1) OF THE LISTING MANUAL

The Company has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7 of the Listing Manual) under Rule 720 (1) of the Listing Manual.

BY ORDER OF THE BOARD

Low Kok Ann
Executive Director and Chief Executive Officer

3 August 2017