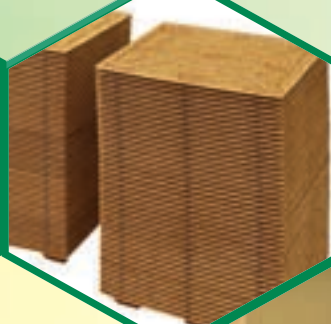




LHT HOLDINGS LIMITED

Optimising *Green* & Enhancing Value

Annual Report **2016**





LHT HOLDINGS LIMITED



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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 in Singapore. 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 187 employees in Singapore and a total of 326 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



CERT NO.: 2001-0131
ISO 14001 : 2004



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



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), Sustainability Award by the Singapore Business Federation in 2012, 3R Packaging Award 2013 co-hosted by Singapore Packaging Agreement and National Environment Agency, SMF Business Model Innovation Award by the Singapore Manufacturing Federation and SSWG Merit Award by the Singapore Police Force in 2014 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.



Corporate Structure and Corporate Information



BOARD OF DIRECTORS

- | | |
|--------------------|--|
| Neo Koon Boo | - <i>Ex-Managing Director</i>
<i>(Stepped down on 10 February 2017)</i> |
| Yap Mui Kee | - <i>Managing Director</i>
<i>(Redesignated on 10 February 2017)</i> |
| Tan Kim Sing | - <i>Executive Director</i> |
| Billy Neo Kian Wee | - <i>Executive Director</i>
<i>(Appointed on 24 February 2017)</i> |
| Tan Kok Hiang | - <i>Non-Executive, Lead Independent Director</i> |
| Low Peng Kit | - <i>Non-Executive, Independent Director</i> |
| Wu Chiaw Ching | - <i>Non-Executive, Independent Director</i> |
| Sally Yap Mei Yen | - <i>Alternate Director to Yap Mui Kee and Corporate Secretary</i> |

COMPANY SECRETARY

Sally Yap Mei Yen

AUDIT COMMITTEE

- | | |
|----------------|-------------------|
| Tan Kok Hiang | - <i>Chairman</i> |
| Low Peng Kit | |
| Wu Chiaw Ching | |

NOMINATING COMMITTEE

- | | |
|----------------|-------------------|
| Low Peng Kit | - <i>Chairman</i> |
| Tan Kok Hiang | |
| Wu Chiaw Ching | |

REMUNERATION COMMITTEE

- | | |
|----------------|-------------------|
| Tan Kok Hiang | - <i>Chairman</i> |
| 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.ipcpallet.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
600 North Bridge Road
#23-01 Parkview Square
Singapore 188788
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 Group will continue to keep up its marketing efforts, cost management practices, product quality and prompt delivery to enhance its competitiveness and productivity”

Chairman's Statement

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present the Annual Report and audited Financial Statements of LHT Group for Financial Year 2016.

REVIEW OF PERFORMANCE

For the Financial Year 2016, the Group registered revenue of \$48.78 million, a 5.8% decrease from \$51.83 million in FY2015. Revenue from pallet and packaging products decreased by 6.5% to \$39.67 million (2015: \$42.42 million), mainly due to lower turnover in the second half of the year. Revenue from trading in timber-related products also decreased by 11.7% to \$2.87 million (2015: \$3.25 million) due to decrease in demand. Revenue from Technical Wood® and related products decreased by 40.5% to \$1.10 million (2015: \$1.85 million) due to a reduction in supply which resulted from a fire incident in FY2016. However, revenue from pallet rental and other services have increased by 19.3% to \$5.14 million (2015: \$4.31 million) due to an increase in customer base and stronger demand in the logistics market.

Despite the lower revenue, the Group's net profit after tax increased 4.2% from \$3.83 million in 2015 to \$3.99 million in 2016. This is mainly due to the higher gross profit margin generated for the year.

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

The Board will recommend its first and final one-tier exempt dividend of \$0.05 (five cents) per ordinary share with respect to the Financial Year ended 31 December 2016.

OUTLOOK

In view of the current uncertain economic conditions, 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, cost management practices, product quality and prompt delivery to enhance its competitiveness and productivity. The Group is confident that these efforts will enable it to stay relevant in the market, while maintaining continued growth and sustainability.

ACKNOWLEDGEMENT

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

Yap Mui Kee

Chairman

Board of Directors



1. Mr Neo Koon Boo

Ex-Managing Director - Stepped down on 10 February 2017

Mr Neo Koon Boo is the Co-founder and Managing Director since the Company was established in 29 August 1980. With more than 30 years in the timber industry, he is responsible for the overall management and financial well-being of the Company. For the past decade, Mr Neo played a key role in charting the Company's strategic direction, and business plans. He is also in-charge of the Company's customer base and supplier network within the region. Today, Mr Neo remains the driving force behind the Company's wood waste recycling operations. He believes that wood waste management and new recycling technology contributes to a green environment. Through his efforts, the Company has received various prestigious green label and green innovative awards which have in turn promoted awareness of recycled materials and improved the demand and prospects of Technical Wood® products. On 10 February 2017, Mr Neo stepped down from his position to pave the way for the appointment of the new Chairman, Managing Director and CEO.



2. Ms Yap Mui Kee

Managing Director - Redesignated on 10 February 2017

Ms Yap Mui Kee has been the Executive Director of the Company since 2 January 1988 and is in-charge of all sales and marketing functions. She was appointed as Acting Managing Director on 26 February 2016 and was re-designated as the Chairman, Managing Director and CEO on 10 February 2017. With over 20 years' experience, she plays a key role in exploring opportunities in new markets. Part of her responsibility is to monitor market developments to ensure the Company's product development efforts is aligned to market demands. She is actively involved in the Group's ECR (Efficient Consumer Response) pallet rental business in Singapore and Malaysia, and spearheads the Group's RFID (Radio Frequency Identification) ECR Pallet Tracking System. She holds a Diploma in Sales and Marketing from the Marketing Institute of Singapore and has successfully completed the Operation Management Innovation (OMNI) Programme conducted by A*Star in 2011. She is also a member of the Singapore Institute of Directors.



3. Mr Tan Kim Sing

Executive Director

Mr Tan Kim Sing is the Co-founders of the Company and has been the Executive Director since 29 August 1980. With more than 30 years' experience in the timber industry, Mr Tan is well-versed in the production of wooden crates and pallets, as well as in the procurement of timber. He is responsible for the Company's production operations and the direct purchase of raw materials. He holds a Diploma in Business Administration from the Productivity and Standards Board in Singapore.



4. Mr Billy Neo Kian Wee

Executive Director - Appointed on 24 February 2017

Mr Billy Neo Kian Wee was appointed as the Executive Director on 24 February 2017. He joined the company in June 1996 and worked in several departments of the company such as Logistics, Sales and Marketing of pallet packaging products and services, Development, Sales and Certifications of Technical Wood® products. Mr Neo was appointed the General Manager of LHT Ecotech Resources (Tianjin) Co., Ltd, a wholly-owned subsidiary of the Company in China in January 2012 where he was responsible for all the operations. Mr Neo holds a Bachelor of Business (Management) from Royal Melbourne Institute of Technologies, and a Diploma in Management Studies from Singapore Institute of Management.

Board of Directors



5. Mr Tan Kok Hiang

Non-Executive, Lead Independent Director

Mr Tan Kok Hiang joined the Company as Independent Director on 1 July 1999. He is experienced in capital market 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.



6. Mr Low Peng Kit, BBM(L)

Non-Executive, Independent Director

Mr Low Peng Kit has been an Independent Director of the Company since 1 July 1999. He sits on the board of directors of various companies in the education, healthcare and marketing sectors, and is the Managing Director of FMC Education Centre Pte Ltd and First Medical Centre Pte Ltd. Mr Low is also a passionate and active community leader, and currently serves the grassroots organisations as the Honorary Chairman of the Yew Tee Citizens' Consultative Committee, Chairman of the Yew Tee Active Ageing Committee, and a Committee Member of the South West Community Development Council. In addition to his community work, he holds leadership positions in various other organisations, such as being the Chairman of Kranji Secondary School's Advisory Committee, the Vice Chairman of Chinese Development Assistance Council @ Yew Tee Management Committee, the President of the Canchan Athletic Association and the Agarwood Association (Singapore). Mr Low is also a member of the Singapore Institute of Directors.



7. Dr Wu Chiaw Ching

Non-Executive, Independent Director

Dr Wu Chiaw Ching joined the Company as Independent Director on 12 March 2007. He is presently the Lead Independent Director of GDS Global Limited, and Goodland Group 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.



8. Ms Sally Yap Mei Yen

Alternate Director to Yap Mui Kee and Corporate Secretary

Ms Sally Yap Mei Yen has been an Alternate Director to Ms Yap Mui Kee since 20 July 1998. She 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 the Corporate Secretary of the Company's Singapore subsidiaries and as the 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. She is a Fellow of the Association of Chartered Certified Accountants (United Kingdom) and Chartered Secretaries Institutes 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 the Administration and Financial Controller. His responsibilities include overseeing overall Group accounting and financial management, as well as Human Resource and other administrative functions. Prior to joining the Company, Mr Tan has had over 20 years of experience in financial management in multinational companies in Singapore and Indonesia. He graduated from the Nanyang Technological University with a Bachelor of Accountancy (Honours) degree and holds a Master of Business Administration degree from The Heriot-Watt University (United Kingdom). Mr Tan is 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 and is Senior Sales Manager. He is in-charge of the sales of pallet packaging and all timber-related products in the Company. With over 20 years of experience in sales and marketing of pallet packaging products and services, Mr Yap has established various long-term client relationships. Mr Yap holds a Diploma in Sales & Marketing from the Marketing Institute of Singapore.



Mr Yeo Boon Chan

Mr Yeo Boon Chan is the Procurement Manager of the Company and is responsible for the Company's overall procurement functions. With over 15 years of experience in the purchasing of timber and timber-related material, Mr Yeo has held various positions including Logistics and Warehouse Manager, and Deputy Factory Manager. Prior to joining the Company in April 1990, 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 holds the role of Plant Manager, responsible for recycle plant operations. With over a decade's experience in the export sales of pallets and timber-related materials, Mr Neo is a veteran in the import and export operations. He has also held the roles of Shipping Officer, Export Sales Assistant Manager and Recycling Plant Assistant Manager. Prior to joining the Company, he worked with Miniscribe Peripherals (Pte) Ltd and Fujitec Singapore Corporation Ltd. He holds a Bachelor of Science in Computer with Economics degree from The Open University in UK, a Diploma in Economics from The Open University in UK, and a Diploma in Electrical Engineering from Singapore Polytechnic.

Mr Benny Kok Chee Chuen

Mr Benny Kok Chee Chuen is the Production Manager of the Company, responsible for production of cases, packaging and flooring products. Mr Kok has over 15 years of experience in the manufacturing and production of pallets, cases, packaging and timber-related products. He joined the Company in 1983 as Production Supervisor and was later promoted to Assistant Production Manager of the Pallet Department before he became Production Manager of the Case, Packaging and Flooring Department.



Operating and Financial Review

OPERATING REVIEW

Pallet and Packaging Products

The pallet and packaging business registered a revenue of \$39.67 million (2015: \$42.42 million), a decrease of 6.5% over the last year, mainly due to lower turnover in the second half, while segmental result achieved net profit of \$3.14 million, as compared to a net profit of \$3.95 million for last year mainly due to a lower turnover.

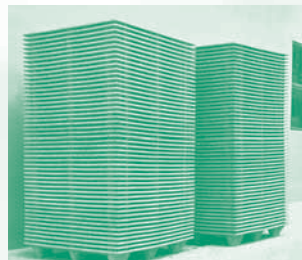
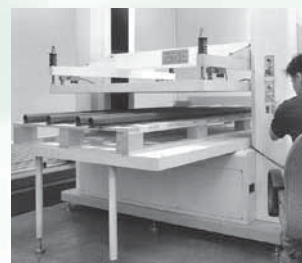
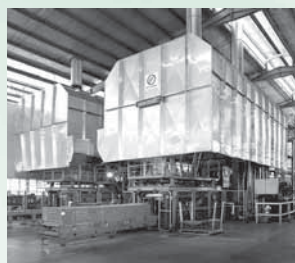
The Group expects this sector to continue growing and remain as the main source of income. To achieve this, the Group aims to promote its range of IPPC pallets, Technical Wood® pallets and pest-free pallets in new markets while driving demand in existing ones.

Timber-Related Products

Revenue for timber-related products decreased approximately 11.7%, decreasing to \$2.87 million (2015: \$3.25 million), resulting from a decrease in demand from local agents for the export market. However, the segmental result registered a net profit of \$0.36 million compared to net profit of \$0.31 million last year. This is mainly due to better cost control. The Group will continue to look for business opportunities to grow its trading activities.

Technical Wood® Products

The revenue of Technical Wood® products and woodchip supply decreased by 40.5% to \$1.10 million (2015: \$1.85 million), a result of a decrease in supply due to a fire incident in 2016. However, segmental result registered a net profit of \$0.03 million as compared to \$0.49 million in the last year. The Group has initiated insurance claims with its insurer with regards to this fire incident.



Operating and Financial Review

Pallet Rental and Others

The revenue for pallet rental has increased by 19.3% to \$5.14 million (2015: \$4.31 million) due to an increase in customer base and higher demand in the logistics market. Accordingly, the segmental profit registered an increased profit of \$1.54 million (2015: \$0.96 million). As the region is expected to grow - though at a lower pace - the Company is confident that pallet rental demands will continue to be strong locally and in Malaysia.

Other Subsidiary Companies

Kim Hiap Lee Company (Pte) Limited, which deals mainly with pallet rentals, registered revenue of \$3.44 million and an operating profit of \$1.08 million, after tax.

Lian Hup Packaging Industries Sdn Bhd, which specialises in the sale of wood products, pallet rentals, timber and packaging, registered revenue of \$2.03 million and an operating profit of \$0.27 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 \$6.07 million and an operating profit of \$0.52 million, after tax.

LHT Marketing Pte Ltd, which is the trading arm of LHT Group, registered a revenue of \$1.41 million with an operating profit of \$0.20 million, after tax.

LHT Ecotech Resources Pte Ltd, an integrated solutions provider for all types of wood waste recycling businesses, registered a revenue of \$1.52 million with an operating profit of \$0.17 million after tax for its woodchip supply to Tuas Power Project.

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 a revenue of \$6.40 million with an operating profit of \$0.02 million, after tax.

LHT Ecotech Resources (Tianjin) Co., Ltd was established to engage in environmental wood product manufacturing, wholesale, retail, import and export and RFID pallet rental business. The company which established its trading operations in 2015, registered a revenue of \$3.34 million with a loss of \$0.14 million, mainly due to its fixed administrative expenses.

Potential Business Factors and Risks

The Group expects to be affected by increasing operating costs and foreign exchange fluctuations, accompanied by higher raw material prices. To maintain its competitive edge, the Group will continue to maintain the following strategies:

To use its Malaysian subsidiaries as its main manufacturing base to tap on more competitive labour costs, and its subsidiary in China to source for raw materials at better prices.

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

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

To raise productivity and explore Government grants in innovation for technology, and encourage employees to upgrade through training and on-the-job innovation.

The acceptance and recognition of environmentally-friendly Technical Wood® products, pest-free pallets, IPPC pallets and pallets rental services in local and overseas markets will boost the Group's core businesses.

Human Resource and Quality Management

As at the end of February 2017, the Group has a workforce of 187 employees in Singapore. Together with its subsidiaries in Malaysia and China, the Group now has a total of 326 employees.

The Group continues to conduct training courses for staff to fulfil the requirements of its ISO accreditation. Ongoing continuous improvement training programmes are held to upgrade employees' skills and productivity. Fire safety and safety-relevant programmes and on-the-job training programmes are in place to help new employees adapt easily to their new working environment. The Group remains an impartial and fair employer, ensuring all employees are equally treated. It continues to encourage employees to participate in extra curriculum activities such as the Skills Training for Excellence Programme and the Continuing Education and Training Programme.

LHT Holdings Limited recognises and appreciates its employees' dedication and contributions towards the Group's achievements and successes. As of today, 148 employees have been acknowledged with long services awards.

The Group's ISO committees will continue to review and improve its quality management systems to enhance productivity and competitiveness.



Operating and Financial Review

“The revenue for pallet rental has increased by 19.3% to \$5.14 million (2015: \$4.31 million) due to increase in customer base and higher demand in the logistics market.”

FINANCIAL REVIEW

Cash Flows and Liquidity

For the year ended 31 December 2016, The Group's net cash generated from operating activities decreased to \$8.68 million (2015: \$9.38 million), while net cash and cash equivalents increased by \$3.82 million from \$9.22 million to \$13.04 million. The net increase was mainly due to cash generated from its working capital and operating activities.

The Group's current ratio increased from 3.8 in FY 2015 to 4.6 in FY 2016, while the quick ratio also increased from 2.7 to 3.5 respectively. Net asset value per share increased from 82.86 cents to 86.90 cents as of 31 December 2016, due to an increase in net tangible assets for the year. The shareholder's equity for the Group increased to \$46.27 million (2015: \$44.12 million), while total assets decreased to \$53.98 million (2015: \$54.17 million).

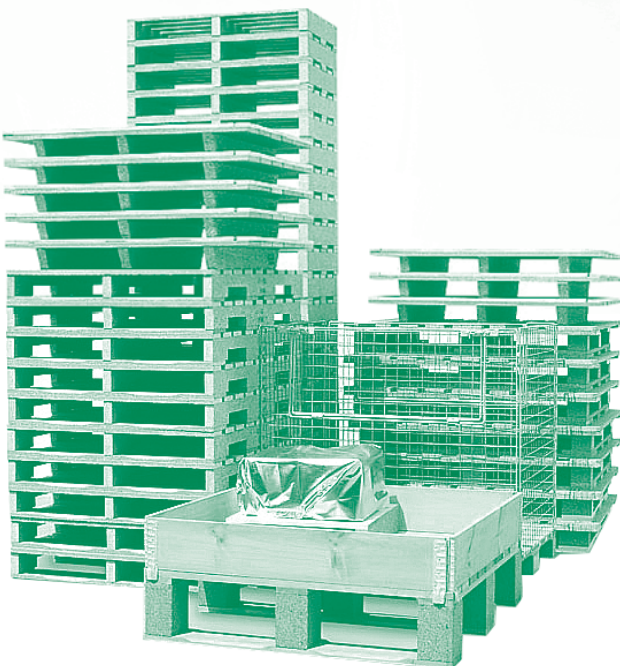
Funding, Borrowings and Risk Management

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 \$1.51 million from \$2.95 million as loans are being paid off. Long-term borrowings decreased to \$0.32 million (2015: \$1.47 million). In line with the decrease in total borrowings, total debt ratio has also decreased to 16.7% (2015: 22.8%).

Details of the Group's financial and capital risk management policies are disclosed in Note 28 and Note 29 in the Financial Statements.

Capital Expenditure

The Group's total capital expenditure incurred for the year was \$1.94 million (2015: \$3.01 million) - largely due to \$1.24 million purchase of new rental pallets to facilitate the Group's aims of increasing its market share in the pallets rental segment.

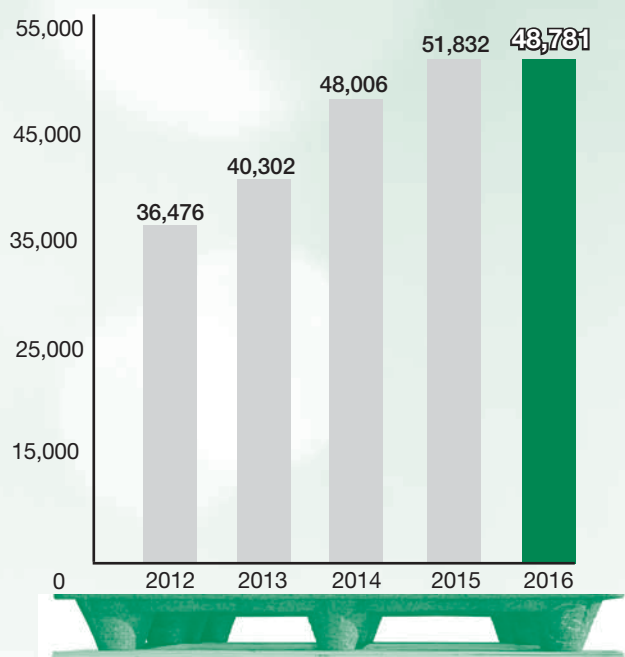


Financial Summary

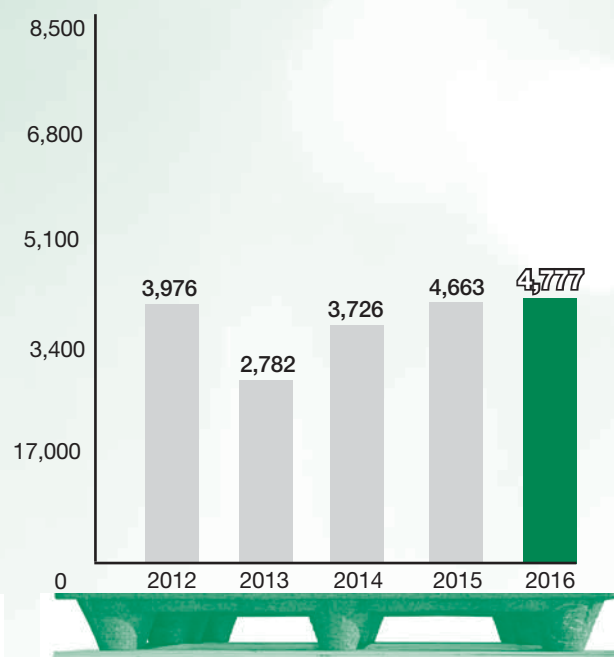
For the Financial Year Ended 31 December

“Net asset value per share increased from 82.86 cents to 86.90 cents as at 31 December 2016, due to an increase in net assets for the year.”

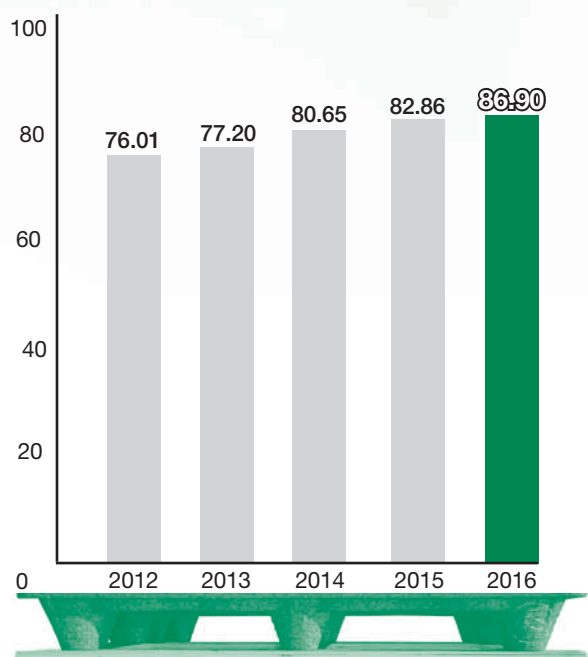
Revenue S\$'000



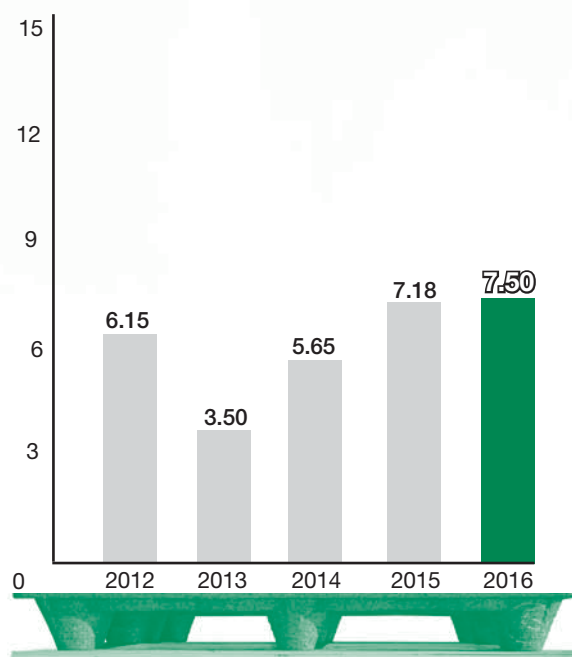
Profit Before Income Tax S\$'000



Net Assets Per Share cents



Earnings Per Share cents



Financial Summary

For the Financial Year Ended 31 December

Result of Operations

\$'000

	2012	2013	2014	2015	2016
Revenue	36,476	40,302	48,006	51,832	48,781
Other income	4,409	3,739	4,113	3,898	4,344
Profit before income tax	3,976	2,782	3,726	4,663	4,777
Income tax expense	(700)	(917)	(718)	(838)	(784)
Profit after income tax attributable to: Equity shareholders of the Company	3,276	1,865	3,008	3,825	3,993
Earnings per share Basic and diluted (cents)**	6.15	3.50	5.65	7.18	7.50

Financial Position

\$'000

	2012	2013	2014	2015	2016
Property, plant and equipment	20,069	22,637	22,198	20,871	18,754
Investment property	5,500	5,500	5,750	5,750	5,750
Intangible asset	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Current assets	22,926	24,960	25,933	27,548	29,478
Current liabilities	(4,423)	(6,823)	(7,034)	(7,326)	(6,402)
Net current assets	18,503	18,137	18,899	20,222	23,076
Non-current liabilities	(3,603)	(5,168)	(3,905)	(2,722)	(1,309)
	40,469	41,106	42,942	44,121	46,271
Equity					
Equity attributable to equity holders of the Company	40,469	41,106	42,942	44,121	46,271
Net assets per share (cents)**	76.01	77.20	80.65	82.86	86.90

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 2016



LHT HOLDINGS LIMITED

8 April 2016

Participated in Vietnam Manufacturing Expo 2016 at the Hanoi Convention Hall, Vietnam.

29 April 2016

Held Company's Annual General Meeting.

10-14 July 2016

Participated in Clean Enviro Singapore, Innovative Clean Enviro-Solutions for Growing Cities at Sands Export and Convention Centre, Marina Bay Sands, Singapore.

9 August 2016

Sponsored environmentally-green packaging pallets at National Day Parade 2016.

7-9 September 2016

Participated in Build Green the Next Decade Exhibition by Singapore Green Building Council (SGBC) at Marina Bay Sands, Singapore.

4 October 2016

Received Energy Efficiency National Partnership (EENP) Awards 2016 – Best Practices (Honorable Mention) by National Environment Agency represented by the Minister for the Environment and Water Resources, Mr Masagos Zulkifli Bin Masagos Mohamad.

12 October 2016

Participated in MPTC Annual Conference 2016, Productivity Transformation through Innovation at Suntec Singapore Convention and Exhibition Centre, Singapore, graced by Minister of State, Ministry of National Development & Ministry of Trade and Industry, Dr Koh Poh Koon. Was also awarded Productivity Partners Recognition Award by Simtech.

12-14 October 2016

Participated in Manufacturing Solutions Expo (MSE 2016) at Suntec City Convention and Exhibition Centre, Singapore, graced by Minister of State, Ministry of National Development & Ministry of Trade and Industry, Dr Koh Poh Koon.

19-21 October 2016

Participated in Indonesia Transport Supply Chain & Logistics 2016 held at the Jakarta International Expo, Indonesia.

3 November 2016

Participated in SMC Annual Conference 2016, Resource Efficiency in Manufacturing Opportunities & Challenges by Singapore Institute of Manufacturing Technology (SIMTech).

Directors' Statement

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 2016 and the statement of financial position and statement of changes in equity of the Company as at 31 December 2016.

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, Chapter 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 2016, 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:-

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)
Billy Neo Kian Wee (Appointed on 24 February 2017)

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.

Directors' Statement

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:

Company	Shareholdings registered in the name of Directors or their spouse/nominees where indicated*	
	Balance as at 1.1.2016	Balance as at 31.12.2016
Number of ordinary shares		
Neo Koon Boo (Retired on 10 February 2017)	12,098,147	12,098,147
Tan Kim Sing	9,671,205	9,671,205
	16,250*	16,250*
Yap Mui Kee	6,605,032	6,605,032
Low Peng Kit	3,750	3,750
Tan Kok Hiang	10,000	10,000
Sally Yap Mei Yen	88,800	88,800

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

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 2017 in the shares or debentures of the Company have not changed from those disclosed as at 31 December 2016.

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;

Directors' Statement

6. Audit Committee (continued)

- (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 full-year 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 extent 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
Managing Director

Singapore
30 March 2017

Tan Kim Sing
Executive Director

Independent Auditor's Report

To the Members of LHT Holdings Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the 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 2016;
- the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Independent Auditor's Report

To the Members of LHT Holdings Limited

1

Impairment of property, plant and equipment and investment in subsidiaries

Key Audit Matter

As at 31 December 2016, the Group held property, plant and equipment ("PPE") amounting to \$18,754,000. The PPE comprises machineries, amounting to approximately \$5,359,000, which are used for the manufacturing of wooden pallets and timber-related products.

In assessing whether there is any indication that the machineries may be impaired, the Group considers if the subsidiaries were performing below forecast cash flows or had under-utilised machineries ("indicators"). Where indicators of possible impairment were identified, the Group engaged an independent valuer to perform a valuation of certain material machineries.

In addition, the Company considers similar indicators in its impairment assessment of its investments in subsidiaries (cash generating units ("CGUs")). Where it is necessary to test whether the asset values are impaired, the carrying value of the CGU are compared to an estimate of the value-in-use ("VIU"), based on discounted projected future cash flows. This requires an estimate to be made of future revenues, operating costs, capital expenditure and discount rates for each CGU. The impairment assessment led to an impairment charge of \$1,606,000 to the carrying value of the Company's investment in subsidiaries.

We focused on this matter because of the significant management judgment involved in estimating the recoverable amounts of the assets based on assumptions that are affected by expected future market and economic conditions.

Related Disclosures

Refer to notes 3, 4 and 6 of the accompanying financial statements.

Audit Response

We reviewed the potential indicators of impairment that would require impairment testing of CGUs. Where impairment assessment is required, we performed the following:

VIU Calculations

- Evaluated the reasonableness of the key assumptions used in the VIU calculation, including the future revenues, operating costs, capital expenditure and discount rates by comparing them to historical financial information of the CGU and externally available economic data.
- Stress-tested the cash flow projections using alternative assumptions within a reasonably foreseeable range. We ensured that the cash flow projections have been appropriately approved by management.
- Evaluated management's budgeting process by comparing the actual results to previously forecasted results.

Valuation Report

- Assessed the objectivity and competency of the valuer by considering their experience and qualifications in assessing similar types of assets.
- Evaluated the valuation report obtained by the Group by assessing the inputs used and utilised our valuation specialists to review the methodologies adopted in the valuation.

Independent Auditor's Report

To the Members of LHT Holdings Limited

2 Costing of inventories

Key Audit Matter

As at 31 December 2016, the Group held inventories amounting to \$6,981,000. The Group adopts a periodic inventory accounting system where the carrying value of the inventories are updated on an annual basis. A physical full inventory count is conducted on an annual basis to determine the quantity of inventories held by the Group.

Arising from the use of a periodic inventory accounting system and the large quantity of inventories as at the end of the reporting period, the determination of the unit cost for the inventories is a laborious and manual process.

This area is a key audit matter due to the inherent risk that the manual processes may result in human processing errors in the determination of the cost of inventories as at the end of the reporting period.

Related Disclosures

Refer to notes 2.8 and 7 of the accompanying financial statements.

Audit Response

Our procedures included, amongst others, the following:

- Observed the inventory counts at selected key locations to assess whether the Group's control procedures were effective and on a sample basis compared amounts of inventory we counted to the amounts recorded on the count sheets for existence and completeness.
- Reviewed management's computation of the cost of purchase and selected samples to check the cost of purchase recorded against the suppliers' invoices and other supporting documents.
- Tested management's allocation of production overheads incurred in converting the materials into finished goods on a sample basis.

Other Information

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

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

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

Independent Auditor's Report

To the Members of LHT Holdings Limited

Responsibilities of Management and Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Independent Auditor's Report

To the Members of LHT Holdings Limited

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Hong Bee Lain Jacqueline.

BDO LLP

Public Accountants and
Chartered Accountants

Singapore
30 March 2017

Statements of Financial Position

As at 31 December 2016

		Group		Company	
	Note	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Non-current assets					
Property, plant and equipment	4	18,754	20,871	9,315	10,460
Investment property	5	5,750	5,750	5,750	5,750
Investments in subsidiaries	6	–	–	12,345	13,951
		24,504	26,621	27,410	30,161
Current assets					
Inventories	7	6,981	7,447	5,047	5,918
Trade and other receivables	8	9,285	10,715	11,216	11,616
Cash and cash equivalents	9	13,212	9,386	7,108	4,043
		29,478	27,548	23,371	21,577
Less:					
Current liabilities					
Trade and other payables	10	4,315	5,252	5,520	6,142
Borrowings	11	1,195	1,481	929	1,119
Income tax payables		892	593	574	387
		6,402	7,326	7,023	7,648
Net current assets		23,076	20,222	16,348	13,929
Less:					
Non-current liabilities					
Borrowings	11	316	1,469	130	1,018
Deferred tax liabilities	13	993	1,253	549	495
		1,309	2,722	679	1,513
Net assets		46,271	44,121	43,079	42,577
Equity					
Share capital	14	24,621	24,621	24,621	24,621
Currency translation reserve	15	(2,289)	(2,043)	–	–
Asset revaluation reserve	16	1,376	1,376	1,376	1,376
Retained earnings		22,563	20,167	17,082	16,580
Equity attributable to owners of the parent, representing total equity		46,271	44,121	43,079	42,577

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

Consolidated Income Statement

For The Financial Year Ended 31 December 2016

	Note	2016 \$'000	2015 \$'000
Revenue	17	48,781	51,832
Cost of sales		(35,280)	(38,868)
Gross profit		13,501	12,964
Other item of income			
Other income	18	4,344	3,898
Other items of expenses			
Distribution expenses		(2,115)	(2,242)
Administrative expenses		(10,323)	(9,794)
Other expenses		(565)	(68)
Finance costs	19	(65)	(95)
Profit before income tax	20	4,777	4,663
Income tax expense	22	(784)	(838)
Profit for the year		3,993	3,825
Profit attributable to:			
Owners of the parent		3,993	3,825
Earnings per share attributable to owners of the parent (cents)			
Basic and diluted	23	7.50	7.18

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

Consolidated Statement of Comprehensive Income

For The Financial Year Ended 31 December 2016

	2016 \$'000	2015 \$'000
Profit for the year	3,993	3,825
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 (2015: \$Nil)	(246)	(1,155)
Total comprehensive income for the year	3,747	2,670
Total comprehensive income attributable to:		
Owners of the parent	3,747	2,670

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

Consolidated Statement of Changes In Equity

For The Financial Year Ended 31 December 2016

	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 2016		24,621	(2,043)	1,376	20,167	44,121
Total comprehensive income for the year:						
Profit for the year		–	–	–	3,993	3,993
Other comprehensive income:						
Exchange differences on translating foreign subsidiaries		–	(246)	–	–	(246)
Total comprehensive income for the year		–	(246)	–	3,993	3,747
Distribution to owners:						
Dividend	26	–	–	–	(1,597)	(1,597)
Balance at 31 December 2016		24,621	(2,289)	1,376	22,563	46,271
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	26	–	–	–	(1,491)	(1,491)
Balance at 31 December 2015		24,621	(2,043)	1,376	20,167	44,121

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

Statement of Changes in Equity

For The Financial Year Ended 31 December 2016

	Note	Share capital \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total equity \$'000
Company					
Balance at 1 January 2016		24,621	1,376	16,580	42,577
Profit for the year, representing total comprehensive income for the year		–	–	2,099	2,099
Distribution to owners:					
Dividend	26	–	–	(1,597)	(1,597)
Balance at 31 December 2016		24,621	1,376	17,082	43,079
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	26	–	–	(1,491)	(1,491)
Balance at 31 December 2015		24,621	1,376	16,580	42,577

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

Consolidated Statement of Cash Flows

For The Financial Year Ended 31 December 2016

	2016 \$'000	2015 \$'000
Operating activities		
Profit before income tax	4,777	4,663
Adjustments for:		
Allowance for doubtful trade receivables	165	–
Allowance for obsolete stock	31	82
Obsolete stock written back	(9)	–
Bad debt written off	3	–
Write back against bad debt allowance	(69)	(60)
Property, plant and equipment written off	147	68
Interest expense	65	95
Interest income	(11)	(11)
Depreciation of property, plant and equipment	3,704	3,540
Gain on disposal of property, plant and equipment	(131)	(22)
Operating cash flows before movements in working capital	8,672	8,355
Changes in working capital:		
Inventories	444	634
Trade and other receivables	1,315	986
Trade and other payables	(962)	167
Cash generated from operations	9,469	10,142
Interest received	11	11
Interest paid	(65)	(95)
Income taxes paid	(734)	(678)
Net cash from operating activities	8,681	9,380
Investing activities		
Purchase of property, plant and equipment	(1,944)	(2,798)
Proceeds from disposal of property, plant and equipment	183	26
Net cash used in investing activities	(1,761)	(2,772)
Financing activities		
Dividends paid	(1,597)	(1,491)
Pledge of fixed deposits	(2)	–
Repayment of term loans	(937)	(909)
Repayment of finance lease obligations	(502)	(461)
Net cash used in financing activities	(3,038)	(2,861)
Net change in cash and cash equivalents	3,882	3,747
Cash and cash equivalents at beginning of financial year	9,215	5,915
Net effect of exchange rate changes on the cash and cash equivalents held in foreign currencies	(58)	(447)
Cash and cash equivalents at end of financial year (Note 9)	13,039	9,215

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

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

1. General corporate information

LHT Holdings Limited (the “Company”) is a limited liability company incorporated and domiciled in Singapore. The Company is listed on the mainboard of the Singapore Exchange Securities Trading Limited (“SGX-ST”). 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 pallet 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 the Company and the consolidated financial statements of the Company and its subsidiaries (the “Group”) for the financial year ended 31 December 2016 were authorised for issue by the Board of Directors on 30 March 2017.

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.

Singapore-incorporated companies listed on SGX-ST will be required to apply a new financial reporting framework identical to the International Financial Reporting Standards (IFRS) for annual periods beginning on or after 1 January 2018. The Group will adopt the new framework on 1 January 2018.

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 that are relevant to its operations and effective for the current financial year. The adoption of these new or revised 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

FRS and INT FRS issued but not yet effective

At the date of authorisation of these financial statements, the following FRS and INT 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 7 (Amendments)	: Disclosure Initiative	1 January 2017
FRS 109	: Financial Instruments	1 January 2018
FRS 115	: Revenue from Contracts with Customers	1 January 2018
FRS 115 (Amendments)	: Clarifications to FRS 115 Revenue from Contracts with Customers	1 January 2018
FRS 116	: Leases	1 January 2019
INT FRS 122	: Foreign Currency Transactions and Advance Consideration	1 January 2018

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

Management anticipates that the adoption of the above FRS and INT FRS in the future periods, 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.

Classification and measurement

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 can elect to recognise the gains and losses in other comprehensive income. 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 can also be measured at fair value through other comprehensive income.

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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

FRS and INT FRS issued but not yet effective (Continued)

FRS 109 Financial Instruments (Continued)

Classification and measurement (Continued)

The Group has performed its preliminary assessment on the classification and measurement of its financial assets, and expects that the financial assets it currently classifies as loan and receivables will be classified as financial assets measured at amortised costs under FRS 109. The Group does not expect any changes in the measurement of its financial assets upon the adoption of the standard.

There are no financial liabilities that are designated at fair value through profit or loss, therefore the Group does not expect any changes to the classification and measurement of its financial liabilities upon the adoption of the standard.

Impairment

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 loss allowances as well as interest revenue. For financial assets at amortised cost or debt instruments at fair value through other comprehensive income, the Group will 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 under the three-stage model or from initial recognition if the simplified model is applied.

The new impairment requirements are expected to result in changes to and likely increases in impairment loss allowances on trade and other receivables, due to earlier recognition of credit losses. The Group expects to adopt the simplified model for its trade receivables and will record an allowance for lifetime expected losses from initial recognition. For other receivables due from third parties and related parties, the Group will initially provide for 12 months expected losses under the three-stage model. The Group is in the process of determining how it will estimate expected credit losses and the sources of forward-looking data.

Transition

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 and intends to elect not to restate comparatives for the previous financial year.

The Group will include additional disclosures in its financial statements for that financial year.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

FRS and INT FRS issued but not yet effective (Continued)

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.

The Group has performed a preliminary assessment of its revenue from sales and distribution of pallets and revenue from the rental of pallets. Based on the preliminary assessment, the Group did not identify any significant impact on the timing and pattern of revenue recognition under FRS 115.

Under FRS 115, the Group expects to qualify to continue to recognise revenue from sale of pallets at a point in time when the control of an asset has been transferred to its customer on delivery and acceptance of the goods. For the Group's revenue from the rental of pallets, the Group expects to continue to recognise revenue over the rental period as the customer is expected to consume the benefits over the contractual period. When the Group enters into arrangements for multiple deliverables for the sale of pallets and the rental of pallets, revenue is recognised separately for each deliverable based on the current revenue recognition policy. However, the Group is still in the process of making its assessment on the potential impact under FRS 115 in relation to combining contracts with customers, contract modifications, rebates, discounts and the allocation of consideration to separate performance obligations. On adoption of FRS 115, the Group expects to elect and apply the practical expedient on contract modifications.

The Group plans to adopt FRS 115 in the financial year beginning on 1 January 2018 using the full retrospective method in accordance with the transitional provisions, and will include the required additional disclosures in its financial statements for that financial year.

FRS 116 Leases

FRS 116 supersedes FRS 17 *Leases* and introduces a new single lessee accounting model which eliminates the current distinction between operating and finance leases for lessees. FRS 116 requires lessees to capitalise all leases on the statement of financial position by recognising a 'right-of-use' asset and a corresponding lease liability for the present value of the obligation to make lease payments, except for certain short-term leases and leases of low-value assets. Subsequently, the lease assets will be depreciated and the lease liabilities will be measured at amortised cost.

From the perspective of a lessor, the classification and accounting for operating and finance leases remains substantially unchanged under FRS 116. FRS 116 also requires enhanced disclosures by both lessees and lessors.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

FRS and INT FRS issued but not yet effective (Continued)

FRS 116 Leases (Continued)

On initial adoption of FRS 116, there may be a potentially significant impact on the accounting treatment for leases, which the Group, as lessee, currently accounts for as operating leases. On adoption of FRS 116, the Group will be required to capitalise its rented office premises, other operating facilities and motor vehicles on the statement of financial position by recognising them as 'right-of-use' assets and their corresponding lease liabilities for the present value of future lease payments. The Group plans to adopt the standard in the financial year beginning on 1 January 2019 using the modified retrospective method in accordance with the transitional provisions, and will include the required additional disclosures in its financial statements for that financial year.

Adoption of IFRS-identical financial reporting standards

Singapore-incorporated companies listed on SGX-ST are required to apply a new financial reporting framework identical to IFRS in 2018. The Group will adopt the new framework on 1 January 2018 and will apply the equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to the transition. This will involve restating the comparatives for the financial year ended 31 December 2017 and the opening statement of financial position as at 1 January 2017 in accordance with the new framework. The Group is in the process of assessing the impact of transition, including the impact from the adoption of IFRS 9 and 15 which is expected to be similar to the impact of FRS 109 and 115 disclosed above, as well as other transitional adjustments that may be required or elected under IFRS 1.

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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.2 Basis of consolidation (Continued)

When the Group loses control of a subsidiary it derecognises the assets and liabilities of the 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 and liabilities of the subsidiary. 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.

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

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.

Goodwill arising on acquisition is recognised as an asset at the acquisition date and initially measured at 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's previously held equity interest (if any) in the entity over net acquisition-date fair value amounts of the identifiable assets acquired and the liabilities and contingent liabilities assumed.

If, after reassessment, 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

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.

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 or valuation of assets 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

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.

2.6 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

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.

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 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.7 Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.7 Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Other financial liabilities (Continued)

Borrowings

Interest-bearing bank loans are initially measured at fair value, net of transaction costs and 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 Group's 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 in the statement of financial position comprise cash on hand, demand deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash and 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.

2.10 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

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

Finance leases

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

Assets held under finance leases are capitalised as property, plant and equipment of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges 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, unless they are directly attributable to the acquisition, construction or production of qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Operating leases

Rentals payable under operating leases (net of any incentives received from lessors) are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Where the Group and the Company are the lessor

Rental income from operating leases (net of any incentives given to lessees) is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which user benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.13 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, discounts, sales related taxes and other similar allowances.

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, usually on delivery and acceptance of the goods, and 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.13 Revenue recognition (Continued)

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.

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 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.16 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.

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 is 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.16 Taxes (Continued)

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.

2.17 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

2. Summary of significant accounting policies (Continued)

2.18 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.

2.19 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 instalment.

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.

3.1 Critical judgements made in applying the accounting policies

Management is of the opinion that there are no critical judgements, apart from those involving estimations (see below) that management has made in the process of applying the Group's accounting policies and which have a significant effect on the amounts recognised in the financial statements.

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 financial year, 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) *Impairment of investments in subsidiaries*

The Company has recognised an impairment charge on its investments in subsidiaries of approximately \$1,606,000 during the financial year which resulted in a reduction of the carrying amount of the Company's investments in subsidiaries as at 31 December 2016 to \$12,345,000.

In performing the impairment assessment of the carrying amount of Company's investment in subsidiaries, as disclosed in Note 6, the recoverable amounts of the CGUs are determined using value-in-use ("VIU") calculation. Significant judgements are used to estimate the future revenues, operating costs, capital expenditure and pre-tax discount rates applied in computing the recoverable amounts of the different CGUs. In making these estimates, management has relied on historical financial information and its expectations of economic outlooks in the primary environment that the subsidiaries operate.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

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

3.2 Key sources of estimation uncertainty (Continued)

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

Property, plant and equipment (“PPE”) are tested for impairment whenever there is indication that these assets may be impaired. In the identification of indicators of impairment, the Group considers if the subsidiaries holding the PPE were performing below forecast cash flows or had under-utilised machineries. Where possible impairment indicators have been identified, the Group determines the recoverable amounts based on the higher of fair value less costs of disposal and its VIU. In the current financial year, the Group has assessed the recoverable amount based on the fair value less costs of disposal. Accordingly, the Group engaged independent valuers to perform a valuation of the relevant machineries and determined that there is no impairment of the PPE as at 31 December 2016.

(iii) *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 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.

The carrying amounts of the Group’s and the Company’s property, plant and equipment as at 31 December 2016 were approximately \$18,754,000 (2015: \$20,871,000) and \$9,315,000 (2015: \$10,460,000) respectively.

(iv) *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 2016 were approximately \$6,981,000 (2015: \$7,447,000) and \$5,047,000 (2015: \$5,918,000) respectively. The Group and the Company has recognised an allowance for obsolete stock of approximately \$778,000 (2015: \$756,000) and \$757,000 (2015: \$726,000) respectively.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

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

3.2 Key sources of estimation uncertainty (Continued)

(v) 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 2016 were approximately \$8,821,000 (2015: \$10,561,000) and \$11,113,000 (2015: \$11,594,000) respectively.

(vi) 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 2016 were approximately \$892,000 (2015: \$593,000) and \$574,000 (2015: \$387,000) respectively. The carrying amounts of the Group's and Company's deferred tax liabilities as at 31 December 2016 were approximately \$993,000 (2015: \$1,253,000) and \$549,000 (2015: \$495,000) respectively.

(vii) 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

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

3.2 Key sources of estimation uncertainty (Continued)

(vii) Fair value measurement (Continued)

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

- Investment Property (Note 5 and 30.1)
- Finance lease payables (Note 30.2)
- Term loans (Note 30.2)

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							
2016							
Cost							
Balance at 1 January 2016	15,482	23,305	4,011	1,912	9,196	579	54,485
Additions	118	32	155	–	1,239	400	1,944
Disposals	–	–	–	–	(278)	–	(278)
Written off	(70)	(4)	(43)	–	(986)	–	(1,103)
Transfers	–	3	413	–	–	(416)	–
Currency realignment	(18)	(65)	(28)	(2)	(92)	(50)	(255)
Balance at 31 December 2016	15,512	23,271	4,508	1,910	9,079	513	54,793
Accumulated depreciation							
Balance at 1 January 2016	8,049	16,905	2,927	1,175	4,558	–	33,614
Charge for the year	753	1,043	337	262	1,309	–	3,704
Disposals	–	–	–	–	(226)	–	(226)
Written off	(46)	(4)	(42)	–	(864)	–	(956)
Currency realignment	(8)	(32)	(8)	(2)	(47)	–	(97)
Balance at 31 December 2016	8,748	17,912	3,214	1,435	4,730	–	36,039
Net carrying amount							
Balance at 31 December 2016	6,764	5,359	1,294	475	4,349	513	18,754

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

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							
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

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

4. Property, plant and equipment (Continued)

	Leasehold properties \$'000	Plant and machinery \$'000	Office furniture, fittings and equipment \$'000	Motor vehicles and forklifts \$'000	Construction in progress \$'000	Total \$'000
Company						
2016						
Cost						
Balance at 1 January 2016	14,637	17,068	2,828	1,110	363	36,006
Additions	118	12	67	–	400	597
Transfers	–	3	413	–	(416)	–
Written-off	(70)	(4)	(43)	–	–	(117)
Balance at 31 December 2016	14,685	17,079	3,265	1,110	347	36,486
Accumulated depreciation						
Balance at 1 January 2016	7,719	14,412	2,514	901	–	25,546
Charge for the year	736	625	173	183	–	1,717
Written-off	(46)	(4)	(42)	–	–	(92)
Balance at 31 December 2016	8,409	15,033	2,645	1,084	–	27,171
Net carrying amount						
Balance at 31 December 2016	6,276	2,046	620	26	347	9,315
	Leasehold properties \$'000	Plant and machinery \$'000	Office furniture, fittings and equipment \$'000	Motor vehicles and forklifts \$'000	Construction in progress \$'000	Total \$'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)	–
Disposal	–	(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
Disposal	–	(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

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

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	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Motor vehicles and forklifts	450	704	14	191
Office furniture, fittings and equipment	7	25	–	–
Plant and machinery	964	1,044	–	–
	1,421	1,773	14	191

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	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Leasehold properties	6,702	7,400	6,276	6,918
Plant and machinery	1,874	2,415	1,874	2,415
	8,576	9,815	8,150	9,333

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

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

4. Property, plant and equipment (Continued)

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

Location	Usage	Approximate land area	Tenure
No. 4, Jalan Pinang Merah 20, Bandar Tenggara, 81000 Kulai, Johor Malaysia	Dormitory for employees	721 sq m	99 years expiring 2090
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	
	2016 \$'000	2015 \$'000
Cost of sales	1,710	1,784
Administrative expenses	1,994	1,756
	<u>3,704</u>	<u>3,540</u>

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

	2016 \$'000	2015 \$'000
Cash payments	1,944	2,798
Finance lease payables	–	207
	<u>1,944</u>	<u>3,005</u>

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

4. Property, plant and equipment (Continued)

- 4.6 For the financial year ended 31 December 2016, included in the construction in progress were machineries awaiting for their assembly and installations in one of the subsidiary, an accounting system awaiting data migration and electrical control cabinets pending installation of approximately \$166,000, \$90,000 and \$257,000 respectively.

For the financial year ended 31 December 2015, included in the construction in progress were machineries awaiting for their assembly and an inventory management system being developed for the Company of approximately \$216,000 and \$363,000 respectively.

- 4.7 During the financial year, certain assets were damaged due to a fire incident and written off by the Company. The Company has initiated insurance claims with the insurer with regards to this fire incident and it is still in the process of negotiation with the insurer as of the date of issuance of the financial statements.

5. Investment property

	Group and Company	
	2016	2015
	\$'000	\$'000
At fair value		
Balance at beginning and end of financial year	5,750	5,750

The Group's and the Company's investment property was valued as at 31 December 2016 (2015: 31 December 2015) 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 are disclosed in Note 30 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:

	2016	2015
	\$'000	\$'000
Rental and service income (Note 18)	2,662	2,393
Direct operating expenses (including repair and maintenance) arising from rental-generating investment property	(972)	(1,199)

6. Investments in subsidiaries

	Company	
	2016	2015
	\$'000	\$'000
Unquoted equity shares, at cost	13,951	13,951
Allowance for impairment loss	(1,606)	–
	12,345	13,951

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

6. Investments in subsidiaries (Continued)

Movements in the allowance for impairment loss are as follows:

	Company	
	2016	2015
	\$'000	\$'000
At 1 January	–	–
Impairment loss recognised in the year *	1,606	–
At 31 December	1,606	–

* This is included in the “Other expenses” in the Company’s profit or loss for the financial year then ended.

During the year, the Group carried out a review of the recoverable amount of the investment in LHT Ecotech Resources (Tianjin) Co., Ltd under pallets and timber segment due to the losses reported by this subsidiary as a result of weak market presence in China and increasing operating costs. The review led to the recognition of an impairment loss of \$1,606,000 that has been recognised in profit or loss. The recoverable amount of the investment of \$2,207,000 has been determined on the basis of its value-in-use. The discount rate used in measuring value in use was 4.41%.

Details of the subsidiary companies as at 31 December 2016 are as follows:

Name of Company (Country of incorporation and principal place of business)	Principal activities	Proportion of ownership interest held	
		2016 %	2015 %
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 and pallet rental	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)	Trading and exporter of wooden pallets and related products	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

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

6. Investments in subsidiaries (Continued)

Significant restriction

Cash and bank balances of \$688,000 (2015: \$836,000) 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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Raw materials	4,700	4,408	3,114	3,378
Work-in-progress	21	263	21	268
Finished goods	1,956	1,787	1,608	1,283
Goods in transit	304	989	304	989
	6,981	7,447	5,047	5,918

The cost of inventories recognised as an expense and included in "cost of sales" line item in profit or loss amounted to approximately \$23,035,000 (2015: \$26,492,000).

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 \$778,000 and \$757,000 (2015: \$756,000 and \$726,000) respectively.

Arising from the review, the Group and Company recognise a charge of \$31,000 (2015: \$82,000) and \$31,000 (2015: \$73,000) 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 \$9,000 (2015: \$Nil) and \$NIL (2015: \$Nil) by the Group and Company respectively was recognised in "other income". The reversals were a result of inventories being sold above its carrying amount in the prior financial year.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

8. Trade and other receivables

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Trade receivables				
- third parties	8,507	10,001	6,434	7,847
- subsidiaries	–	–	2,720	2,351
	8,507	10,001	9,154	10,198
Less: Allowance for doubtful trade receivables – third parties	(228)	(191)	(79)	(141)
	8,279	9,810	9,075	10,057
Other receivables				
- third parties	399	605	258	109
- subsidiaries	–	–	1,751	1,400
Deposits	143	146	29	28
Prepayments	426	101	103	22
Tax recoverable	38	53	–	–
Total trade and other receivables	9,285	10,715	11,216	11,616
Add:				
- Cash and cash equivalents (Note 9)	13,212	9,386	7,108	4,043
Less:				
- Prepayments	(426)	(101)	(103)	(22)
- Tax recoverable	(38)	(53)	–	–
Total loans and receivables	22,033	19,947	18,221	15,637

Trade receivables from third parties and subsidiaries are non-interest bearing and repayable within the normal credit terms of 30 to 90 days (2015: 30 to 90 days).

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

Movements in allowance for doubtful trade receivables are as follows:

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Balance at beginning of financial year	191	253	141	201
Write off against allowance	(59)	(2)	(59)	–
Write back against allowance	(69)	(60)	(69)	(60)
Charge for the year	165	–	66	–
Balance at end of financial year	228	191	79	141

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Past due for more than 60 days	228	191	79	141

The aging analysis of the trade receivables are set out in Note 28 to the financial statements.

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

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Singapore dollar	6,608	6,823	7,799	7,808
Ringgit Malaysia	816	862	1,958	1,189
Renminbi	423	423	2	2
United States dollar	1,438	2,519	1,457	2,529
Euro	–	88	–	88
	9,285	10,715	11,216	11,616

9. Cash and cash equivalents

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Fixed deposits	173	171	–	–
Cash and bank balances	13,039	9,215	7,108	4,043
	13,212	9,386	7,108	4,043

The fixed deposits are pledged to a bank as security for credit facilities granted to the Group. The fixed deposits bear interest rate ranging from 2.70% to 3.10% (2015: 3.05%) per annum with maturity of 1 month (2015: 1 month) from the end of the reporting period.

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

	2016 \$'000	2015 \$'000
Fixed deposits	173	171
Cash and bank balances	13,039	9,215
	13,212	9,386
Fixed deposits pledged with banks	(173)	(171)
	13,039	9,215

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

9. Cash and cash equivalents (continued)

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Singapore dollar	9,476	5,067	6,766	2,907
Ringgit Malaysia	2,459	2,256	7	9
United States dollar	882	1,509	305	1,095
Renminbi	395	554	30	32
	13,212	9,386	7,108	4,043

10. Trade and other payables

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Trade payables				
- third parties	1,814	2,879	916	2,019
- subsidiaries	—	—	2,691	2,300
- related parties	181	185	173	185
	1,995	3,064	3,780	4,504
Accrued expenses	1,530	1,396	1,183	1,110
Deposits received	420	471	388	436
Sundry payables	370	321	169	92
Total trade and other payables	4,315	5,252	5,520	6,142
Add:				
- Borrowings (Note 11)	1,511	2,950	1,059	2,137
Total financial liabilities carried at amortised cost	5,826	8,202	6,579	8,279

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 (2015: 30 to 90 days).

No interest is charged on the trade and other payables.

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Singapore dollar	3,000	3,275	3,982	5,334
Ringgit Malaysia	950	1,527	1,372	666
United States dollar	150	148	166	137
Reminbi	215	297	—	—
Euro	—	5	—	5
	4,315	5,252	5,520	6,142

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

11. Borrowings

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Finance lease payables (Note 12)	474	976	22	163
Term loan I, secured	263	588	263	588
Term loan II, secured	774	1,386	774	1,386
Total	1,511	2,950	1,059	2,137
Less:				
Amount due for settlement within 12 months	(1,195)	(1,481)	(929)	(1,119)
Amount due for settlement after 12 months	316	1,469	130	1,018

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 is repayable over a maximum period of 7 years from the commencement date in July 2011 and bear effective interest rates ranging from 2.87% to 3.35% (2015: 2.41% to 3.07%) per annum. The interest rates are re-priced quarterly.

The term loan II is repayable over a maximum period of 5 years from the commencement date in April 2013 and bear effective interest rates ranging from 2.37% to 2.51% (2015: 1.93% to 2.51%) 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 30.2 to the financial statements.

The borrowings are denominated in Singapore dollar.

12. Finance lease payables

	2016		2015	
	Minimum lease payment	Present value of payment	Minimum lease payment	Present value of payment
	\$'000	\$'000	\$'000	\$'000
Group				
Payable under finance leases:				
- Within one financial year	299	288	527	502
- After one financial year but within five financial years	191	186	490	474
	490	474	1,017	976
Less: future finance charges	(16)	–	(41)	–
Present value of lease obligations	474	474	976	976

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

12. Finance lease payables (Continued)

	2016		2015	
	Minimum lease payment \$'000	Present value of payment \$'000	Minimum lease payment \$'000	Present value of payment \$'000
Company				
Payable under finance leases:				
- Within one financial year	23	22	144	141
- After one financial year but within five financial years	–	–	23	22
	23	22	167	163
Less: future finance charges	(1)	–	(4)	–
Present value of lease obligations	22	22	163	163

The lease terms range from 4 to 7 years (2015: 4 to 7 years). The weighted average effective borrowing rate for the Group and the Company are 3.56% (2015: 3.29%) and 3.86% (2015: 3.83%) 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 30.2 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 tax

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Deferred tax liabilities	993	1,253	549	495

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

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Balance at beginning of financial year	1,253	1,205	495	563
(Credit)/Charge to profit or loss (Note 22)	(257)	66	54	(68)
Exchange translation difference	(3)	(18)	–	–
Balance at end of financial year	993	1,253	549	495

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

13. Deferred tax (Continued)

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

13.1 Deferred tax liabilities

	Accelerated tax depreciation \$'000	Revaluation of building \$'000	Allowance for obsolete stock \$'000	Others \$'000	Total \$'000
Group					
At 1 January 2016	(1,100)	(302)	123	26	(1,253)
Credit/(Charge) to profit or loss	(6)	–	6	(1)	(1)
Effect of previously unrecognised and unused tax losses now recognised and offset against deferred tax liabilities	115	–	–	143	258
Exchange translation difference	3	–	–	–	3
At 31 December 2016	(988)	(302)	129	168	(993)
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	217	–	–	–	217
Exchange translation difference	18	–	–	–	18
At 31 December 2015	(1,100)	(302)	123	26	(1,253)
Company					
At 1 January 2016	(342)	(302)	123	26	(495)
Credit/(Charge) to profit or loss	(63)	–	6	3	(54)
At 31 December 2016	(405)	(302)	129	29	(549)
At 1 January 2015	(396)	(302)	111	24	(563)
Credit/(Charge) to profit or loss	54	–	12	2	68
At 31 December 2015	(342)	(302)	123	26	(495)

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

13. Deferred tax (Continued)

13.2 Deferred tax assets

Movements in unrecognised deferred tax assets are as follows:

	Group	
	2016	2015
	\$'000	\$'000
At beginning of financial year	255	586
Effect of previously unrecognised and unused tax losses now recognised and offset against deferred tax liabilities (Note 13.1)	(258)	(217)
Utilisation of prior year deferred tax assets not recognised	(21)	(27)
Amount not recognised during financial year	35	55
Adjustment resulting from changes in temporary differences	255	(142)
At end of financial year	266	255

Deferred tax assets not recognised related to the following:

	Group	
	2016	2015
	\$'000	\$'000
Unutilised tax losses	266	255

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 2016, the Group has unutilised tax losses of \$1,064,000 (2015: \$1,032,000) 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 \$1,064,000 (2015: \$928,000) and can only be utilised for set-off against its future taxable profits within five years from the date the tax losses were incurred.

The unrecognised tax losses will expire as follows:

	Group	
	2016	2015
	\$'000	\$'000
Year 2018	365	365
Year 2019	410	410
Year 2020	153	153
Year 2021	136	–

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

14. Share capital

	Group and Company		Group and Company	
	2016	2015	2016	2015
	Number of ordinary shares			
	('000)		\$'000	\$'000
Issued and fully paid:				
Beginning of financial year	53,245	212,980	24,621	24,621
Share consolidation	–	(159,735)	–	–
End of financial year	53,245	53,245	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 2016 comprises 53,244,997 consolidated shares after disregarding any fractions of consolidated shares arising from the share consolidation exercise.

15. 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.

16. 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.

17. Revenue

	Group	
	2016	2015
	\$'000	\$'000
Sale of goods	43,637	47,519
Pallet rental	5,144	4,313
	48,781	51,832

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

18. Other income

	Group	
	2016	2015
	\$'000	\$'000
Gain on disposal of property, plant and equipment	131	22
Government grants		
– Special Employment Credit	106	79
– Others government grants	454	311
Heat treatment and utilities income	131	138
Interest income	11	11
Rental and service income	2,662	2,393
Allowance for doubtful trade receivables written back	69	60
Waste collection income	265	264
Obsolete stock written back	9	–
Foreign exchange gain, net	–	150
Sundry income	203	141
Others	303	329
	4,344	3,898

19. Finance costs

	Group	
	2016	2015
	\$'000	\$'000
Interest expense in respect of:		
Finance leases	25	36
Bank loan	40	59
	65	95

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

20. 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	
	2016	2015
	\$'000	\$'000
<i>Cost of sales</i>		
Cost of inventories included in cost of sales	23,035	26,492
Employee benefits expenses (Note 21)	5,093	4,855
Repair and maintenance expenses	1,823	1,746
Depreciation of property, plant and equipment	1,710	1,784
Operating lease expenses	1,480	1,570
Utilities expenses	793	1,063
Allowance for obsolete stock	31	82
<i>Distribution expenses</i>		
Transportation and carriage expenses	2,115	2,242
<i>Administrative expenses</i>		
Audit fees paid to the auditors:		
- Auditors of the Company	91	93
- Other auditors	24	26
Non-audit fees paid to auditors of the Company		
- Auditors of the Company	28	46
- Other auditors	14	15
Depreciation of property, plant and equipment	1,994	1,756
Directors' fees		
- Directors of the Company*	221	206
Employee benefits expenses (Note 21)	4,351	4,087
Insurance	446	351
Property tax	361	430
Operating lease expenses	995	1,070
<i>Other expenses</i>		
Allowance for doubtful trade receivables	165	-
Foreign exchange loss, net	250	-
Property, plant and equipment written off	147	68
Bad debt written off	3	-

* Included in the Directors' fees are fees declared by the subsidiaries to the Directors in their capacity as Directors of those subsidiaries of \$73,206 (2015: \$71,255).

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

21. Employee benefits expenses

	Group	
	2016	2015
	\$'000	\$'000
Salaries, wages and other costs	8,848	8,397
Defined contribution plans	596	545
	9,444	8,942

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

	Group	
	2016	2015
	\$'000	\$'000
Cost of sales	5,093	4,855
Administrative expenses	4,351	4,087
	9,444	8,942

The employee benefits expenses include compensation of key management personnel as disclosed in Note 25 to the financial statements.

22. Income tax expense

	Group	
	2016	2015
	\$'000	\$'000
Based on results for the financial year:		
- current income tax	1,090	764
- deferred tax	(172)	41
	918	805
(Over)/under provision in prior years		
- current income tax	(49)	8
- deferred tax	(85)	25
	(134)	33
Total income tax expenses	784	838

Domestic income tax is calculated at 17% (2015: 17%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

22. 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% (2015: 17%) to profit before income tax as a result of the following differences:

Reconciliation of effective tax rate

	Group	
	2016	2015
	\$'000	\$'000
Profit before income tax	4,777	4,663
Tax based on Singapore statutory tax rate	812	793
Tax effect of:		
- Different tax rates in other countries	62	78
- Non-taxable income	(2)	–
- Non-deductible expenses	180	138
- Tax incentive	(141)	(237)
(Over)/under provision of income tax in prior years	(49)	8
Utilisation of prior year deferred tax assets not recognised	(21)	(27)
(Over)/under provision of income tax in prior years	(85)	25
Deferred tax assets not recognised	35	55
Others	(7)	5
	784	838

23. Earnings per share

The calculation for earnings per share is based on:

	Group	
	2016	2015
Profit after income tax attributable to owners of the parent (S\$'000)	3,993	3,825
Actual number of ordinary shares in issue during the financial year applicable to basic earnings per share ('000)	53,245	53,245
Earnings per shares (in cents)		
- Basic	7.50	7.18
- Diluted	7.50	7.18

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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

24. Commitments

24.1 Operating lease commitments

Where the Group and Company are lessee

The Group leases office premises, other operating facilities and motor vehicles 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	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Not later than one year	1,624	1,546	1,441	1,454
Later than one year but not later than five years	5,548	5,500	5,374	5,440
Later than five years	4,469	5,863	4,469	5,863
	11,641	12,909	11,284	12,757

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	
	2016	2015
	\$'000	\$'000
Not later than one year	673	1,066
Later than one year but not later than five years	133	366
	806	1,432

The Company has received notification from its lessor informing that as part of the lessor's plans to upgrade the infrastructure for the Sungei Kadut estate, the Company's property located at 44 Sungei Kadut Street 1 will be affected and required to be relocated by 2020, ahead of the lease expiry in 2025. The Company is now in the process of discussion with the lessor on relocation plans moving forward and no agreements were signed as of the date of issuance of the financial statements.

24.2 Capital commitments

As at 31 December 2016, the Group and the Company has a capital commitment of approximately \$Nil (2015: \$301,000) in relation to the purchase of plant and equipment for production purpose.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

25. Significant related party transactions

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			
	2016 \$'000	2015 \$'000		
Subsidiaries:				
- Trade sales	5,760	2,930		
- Trade purchases	15,955	12,104		
- Pallet repair income	756	825		
- Payment on behalf of	399	769		
- Management fee charged from	96	96		
- Service rendered by	150	212		
- Dividend received	1,778	1,005		
- Sundry Income	441	1246		
	Group	Company		
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Related parties:				
- Transport charges	1,240	1,357	995	1,094
- Printing expenses	22	19	18	17
Director-related employees' remuneration	893	821	734	673

Related parties are companies whose equity shareholders are either close members of the Group's directors' family or common directors with significant influence over the Group's subsidiaries.

Compensation of key management personnel

	Group	
	2016 \$'000	2015 \$'000
Short-term employee benefits	1,369	1,300
Post-employment benefits	105	89
Directors' fees		
- Directors of the Company	221	206
	1,695	1,595
Comprise amounts paid to:		
Directors of the Group	1,109	1,076
Director-related employees	167	158
Other key management executives	419	361
	1,695	1,595

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

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

26. Dividend

	Group and Company	
	2016	2015
	\$'000	\$'000
First and final one-tier tax-exempt dividend paid of \$0.03 (2015: \$0.007) per ordinary share (Note 14)	1,597	1,491

The Directors of the Company recommend a first and final one-tier tax-exempt dividend of \$0.05 per ordinary share amounting to approximately \$2,662,000 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.

27. Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker (Note 2.18).

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 operating 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 operations 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

27. Segment information (Continued)

27.1 Business segments

	Pallet/ packaging		Timber related products		Technical Wood® products		Pallet rental and other services		Elimination		Consolidated	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Segment revenue												
Sales to external customers	39,671	42,421	2,867	3,247	1,099	1,851	5,144	4,313	–	–	48,781	51,832
Inter-segment sales	14,034	14,108	7,021	1,085	1,052	995	–	9	(22,107)	(16,197)	–	–
Total revenue	53,705	56,529	9,888	4,332	2,151	2,846	5,144	4,322	(22,107)	(16,197)	48,781	51,832
Segment results	3,141	3,951	360	310	33	491	1,536	954	(228)	(948)	4,842	4,758
Finance costs											(65)	(95)
Profit before income tax											4,777	4,663
Income tax expense											(784)	(838)
Profit for the year											3,993	3,825
Segment assets	23,622	23,455	2,403	1,726	6,768	8,764	29,887	27,887	(8,735)	(7,716)	53,945	54,116
Unallocated assets											37	53
Total assets											53,982	54,169
Segment liabilities	10,077	10,087	–	–	1,061	1,781	983	730	(7,333)	(6,370)	4,788	6,228
Unallocated liabilities*											2,923	3,820
Total liabilities											7,711	10,048
Other segment information												
Capital expenditures	606	825	92	–	6	494	1,267	1,702	(27)	(16)	1,944	3,005
Depreciation	1,193	1,059	–	–	825	881	1,709	1,644	(23)	(44)	3,704	3,540
Gain on disposal of property, plant and equipment	–	–	–	–	–	–	(131)	(22)	–	–	(131)	(22)
Allowance/ (Reversal) of allowance for obsolete stock	31	19	–	–	(9)	59	–	4	–	–	22	82

* Unallocated liabilities relate to income tax payables, deferred tax liabilities and term loans.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

27. Segment information (Continued)

27.2 Geographical information

Revenue from external customers

	Singapore		Malaysia		China		Consolidated	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Revenue to external customers	46,776	49,970	1,996	1,740	9	122	48,781	51,832

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

Location of non-current assets

	Singapore		Malaysia		China		Consolidated	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Non-current assets	19,607	21,425	4,309	4,498	588	698	24,504	26,621

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

27.3 Major customer

For the financial year ended 31 December 2016, the revenue from 1 major customer of the Group contributed approximately \$10,579,000 or 22% of the total revenue which derived from pallets or packaging segment from Singapore.

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 from Singapore.

28. 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

28. Financial instruments and financial risk (Continued)

28.1 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% of the total trade and other receivables, except for receivables from third parties which accounts for 21% (2015: 21%) and 13% (2015: 19%) of the Group's and the Company's total trade and other receivable respectively and receivables from subsidiaries which accounts for 19% (2015:16%) of the Company's total trade and other receivable, 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 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 is as follows:

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Not past due	4,920	5,939	6,718	8,714
Past due 1 to 30 days	2,104	1,461	1,679	826
Past due 31 to 60 days	694	799	366	274
Past due for more than 60 days	789	1,802	391	384
	8,507	10,001	9,154	10,198
Less: Allowance for doubtful debt – past due for more than 60 days	(228)	(191)	(79)	(141)
	8,279	9,810	9,075	10,057

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

28. Financial instruments and financial risk (Continued)

28.2 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 Company transacts business in various currencies, including the Singapore Dollar ("SGD"), Malaysian Ringgit ("RM"), United States Dollar ("USD"), Euro and Chinese Renminbi ("RMB") and therefore is exposed to foreign exchange risk.

At the end of the reporting period, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective Group entities' functional currencies are as follows:

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Monetary assets				
SGD	1,403	1,904	–	–
RM	1,965	1,198	1,965	1,198
USD	2,392	4,178	1,762	3,624
RMB	32	34	32	34
Euro	–	88	–	88
Monetary liabilities				
SGD	1,546	1,511	–	–
RM	1,479	718	1,373	666
USD	223	297	166	137
RMB	–	–	–	–
Euro	–	5	–	5

The Company has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. The Group does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

Foreign currency sensitivity analysis

The following table details the sensitivity to a 10% increase and decrease in the relevant foreign currencies against the functional currency of each Group entity. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where they gave rise to an impact on the Group's profit or loss.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

28. Financial instruments and financial risk (Continued)

28.2 Market risks (Continued)

(i) Foreign currency risks (Continued)

Foreign currency sensitivity analysis (Continued)

If the relevant foreign currency weakens by 10% against the functional currency of each Group entity, profit will increase/(decrease) by:

	Group		Company	
	Increase/(Decrease) in profit for the year			
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
RM				
Strengthens against SGD	49	48	59	53
Weakens against SGD	(49)	(48)	(59)	(53)
USD				
Strengthens against SGD	217	388	160	349
Weakens against SGD	(217)	(388)	(160)	(349)
SGD				
Strengthens against foreign currency	(14)	39	—	—
Weakens against foreign currency	14	(39)	—	—

(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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

28. Financial instruments and financial risk (Continued)

28.2 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
2016			
Group and Company			
Financial liabilities			
<i>Floating rate</i>			
Term loans	907	130	1,037
2015			
Group and Company			
Financial liabilities			
<i>Floating rate</i>			
Term loans	979	995	1,974

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.

	Increase/(Decrease) in profit for the year	
	100 bp increase \$'000	100 bp decrease \$'000
Group and Company		
2016		
Floating rate instruments	(10)	10
2015		
Floating rate instruments	(20)	20

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

28. Financial instruments and financial risk (Continued)

28.3 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 2016, the Group and the Company had approximately \$15,352,000 (2015: \$14,986,000), and \$13,368,000 (2015: \$13,250,000) unutilised banking facilities respectively. The Group's and the Company's surplus funds are also managed centrally by placing them with reputable financial institutions.

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				
2016				
<u>Financial assets</u>				
Cash and cash equivalents	13,212	–	–	13,212
Trade and other receivables	8,821	–	–	8,821
<u>Financial liabilities</u>				
Borrowings	1,212	351	(52)	1,511
Trade and other payables	4,315	–	–	4,315
2015				
<u>Financial assets</u>				
Cash and cash equivalents	9,386	–	–	9,386
Trade and other receivables	10,561	–	–	10,561
<u>Financial liabilities</u>				
Borrowings	1,504	1,544	(98)	2,950
Trade and other payables	5,252	–	–	5,252

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

28. Financial instruments and financial risk (Continued)

28.3 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				
2016				
<u>Financial assets</u>				
Cash and cash equivalents	7,108	–	–	7,108
Trade and other receivables	11,113	–	–	11,113
<u>Financial liabilities</u>				
Borrowings	936	159	(36)	1,059
Trade and other payables	5,520	–	–	5,520
2015				
<u>Financial assets</u>				
Cash and cash equivalents	4,043	–	–	4,043
Trade and other receivables	11,594	–	–	11,594
<u>Financial liabilities</u>				
Borrowings	1,121	1,076	(60)	2,137
Trade and other payables	6,142	–	–	6,142

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.

29. 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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

30. Fair values measurement

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

For 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 \$'000	Level 2 \$'000	Level 3 \$'000
Group and Company			
2016			
<u>Non-financial asset</u>			
Investment property	–	–	5,750
2015			
<u>Non-financial asset</u>			
Investment property	–	–	5,750

Details of the property are as follows:

Description/existing use	Location	Gross area (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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

30. Fair values measurement (continued)

30.1 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.

30.2 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.

	2016		2015	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Group				
Financial liabilities:				
- financial lease payables	474	458	976	898
- term loans	1,037	1,021	1,974	1,871
Company				
Financial liabilities:				
- financial lease payables	22	21	163	154
- term loans	1,037	1,021	1,974	1,871

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.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2016

30. Fair values measurement (continued)

30.3 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, Managing Director, 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 the interested person (as defined in the Manual) for the financial year ended 31 December 2016 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\$1,240,098 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 (“HWT”)	HWT is providing transport services to the Company. \$995,005	0
Leayong Trading (“LT”)	LT is providing transport services to subsidiaries of the Company \$170,454	0
Gold Leayong Trading (“GLT”)	GLT is providing transport services to subsidiaries of the Company \$74,639	0
Total	\$1,240,098	0

For interested person transactions above, no shareholders’ mandate pursuant to Rule 920 has been obtained. There were no transactions with interested person as defined in the SGX’s Listing Manual for the financial year ended 31 December 2016 that exceeded the stipulated threshold.

Supplementary Information in Compliance With SGX-ST

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 the economic fluctuation 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 the global economy. The acceptance of the environmental-friendly technical wood products, ECR pallets and pest free pallet products will continue to 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 the fluctuation of the currency which will affect our production cost. In order to contain the impact of this fluctuation, the Group monitors currency movements and will hedge when necessary.

3.3 Human Resource Management

The Company recognises the importance of human capital and employee's morale within the organisation. It has in place a systematic process in ensuring that employees are competitively rewarded, and incentives and bonuses 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 an uninterrupted flow of products and services. The Company has a Fire and Safety Committee to review and advise on proper prevention and handling of incidents, and there is close coordination between various committees in emergency response and preparedness. The Company is one of the members of Safety & Security Watch Group (SSWG) of Sungei Kadut and Kranji Industrial Estates and plays an important role in assisting SPF and SCDF in the handling of 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 on page 71, Note 28 of the Notes to the Financial Statements – 31 December 2016.

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 2016 (“**FY 2016**”) 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 Managing 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 regularly scheduled meetings. Ad-hoc meetings are convened when circumstances require. To facilitate the attendance and participation of Directors at Board meetings, the Company’s Constitution allows 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 regularly updated 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 2016 are as follows:-

- BDO Financial Reporting Standard (FRS) Seminar 2016.
- The NC and the Board was 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.

Corporate Governance Report

- The briefing was provided to the Board by 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.
- Listed Companies Director Programme - Understanding the regulatory environment in Singapore: What every directors ought to know.
- Dealing with ethical issue by accountingcpd.net.
- Workplace Ethics: Understanding employees' professional obligations and mitigating office politics by Institute of Singapore Chartered Accountants (ISCA).
- ACCA Asean Conference 2016 – Transforming the face of accounting and finance talent.
- Asean Summit 2016: Charging through the Complexities – Emboldening SMEs for the ASEAN Economic Community (AEC).
- Singapore Accountancy Convention 2016 – Financial Reporting: Meeting Investors' Needs, Strengthening Market Confidence jointly organised by ARCA and ISCA.
- Vietnam tax briefing.

On 24 February 2017, the newly appointed Director had been given induction training, briefings by the Managing Director and the management of the business activities and its strategic directions. He had been provided with a formal letter setting out his 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 FY2016 and the attendance of each Board member at those meetings were as follows:-

Corporate Governance Report

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 (Ex-Managing Director, stepped down on 10 February 2017)	2	1	2	1 [#]	2	1 [#]	2	1 [#]
Yap Mui Kee (Managing Director, redesignated on 10 February 2017)	2	2	2	2 [#]	2	2 [#]	2	2 [#]
Tan Kim Sing (Executive Director)	2	2	2	2 [#]	2	2 [#]	2	2 [#]
Billy Neo Kian Wee** (Executive Director, appointed on 24 February 2017)	2	0	2	0	2	0	2	0
Tan Kok Hiang (Non Executive, Lead Independent Director)	2	2	2	2	2	2	2	2
Low Peng Kit (Non Executive, Independent Director)	2	2	2	2	2	2	2	2
Wu Chiaw Ching (Non Executive, Independent Director)	2	2	2	2	2	2	2	2
Sally Yap Mei Yen*** (Alternate Director to Yap Mui Kee and Corporate Secretary)	2	2	2	2 [#]	2	2 [#]	2	2 [#]

[#] By invitation.

^{**} Neo Koon Boo and Billy Neo Kian Wee are father and son.

^{***} 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 reviewed the number of years served by each Non-Executive Independent Director. The NC noted all members, Mr. Tan Kok Hiang, Mr. Low Peng Kit and Dr. Wu Chiaw Ching had 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 was 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 provides 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 88 to 90 of this Annual Report.

Corporate Governance 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”) stepped down as the Chairman of the Board (the “Chairman”) and the Managing Director of the Company (the “Managing Director”) and CEO on 10 February 2017 to pave the way for the appointment of the new Chairman, Managing Director and CEO, Ms. Yap Mui Kee (“Ms. Yap”). Ms. Yap, the Executive Director and the Acting Managing Director (the “Acting MD”) was redesignated to be the Chairman, Managing Director, and CEO on 10 February 2017. 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 the 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 CEO. 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 represent a considerable concentration of power.

The Chairman and the Managing Director 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 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 Managing Director 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.

Corporate Governance Report

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 to 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 on 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 recommend Directors who are retiring by rotation to be put forward for re-election.
- (v) to have due regard to the principles of governance and code of best practice.
- (vi) to liaise with the Board in relation to the preparation of the Committee's report to shareholders as required.
- (vii) 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.
- (viii) to assess the effectiveness of the Board as a whole and to assess the contribution of each Director to the effectiveness of the Board. This assessment process is performed and disclosed annually.

From time to time, the NC would make recommendations 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 Articles in the Company's Constitution, 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.

Corporate Governance Report

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 (Ex-Managing Director - stepped down on 10 February 2017)
Shareholding in the Company (as at 13 March 2017)	12,098,147 Shares (as set out on page 107 of this report)
Board Committees Served	None
Date of first appointment as Director	29 August 1980
Date of last re-election as Director	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	Yap Mui Kee (Managing Director – redesignated on 10 February 2017)
Shareholding in the Company (as at 13 March 2017)	6,615,032 Shares (as set out on page 107 of this report)
Board Committees Served	None
Date of first appointment as Director	02 January 1988
Date of last re-election as Director	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 Kim Sing (Executive Director)
Shareholding in the Company (as at 13 March 2017)	9,671,205 Shares (as set out on page 107 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 (Recommended by Nominating Committee for re-election under Article 103 of the Company's Constitution at the forthcoming Annual General Meeting to be scheduled on 28 April 2017)
Present Directorships in other listed companies	None
Past Directorships in other listed companies (within the last 3 years)	None

Corporate Governance Report

Name of Director	Billy Neo Kian Wee (Executive Director)
Shareholding in the Company (as at 13 March 2017)	856,000 Shares
Board Committees Served	None
Date of first appointment as Director	24 February 2017
Date of last re-election as Director	Appointed on 24 February 2017 (Recommended by Nominating Committee for re-election under Article 107 of the Company's Constitution at the forthcoming Annual General Meeting to be scheduled on 28 April 2017)
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 13 March 2017)	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) Transit-Mixed Concrete Ltd (Non-Executive, Independent Director) 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) Viz Branz Limited (Non-Independent, Non-Executive Director)

Corporate Governance Report

Name of Director	Low Peng Kit (Non-Executive, Independent Director)
Shareholding in the Company (as at 13 March 2017)	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 (Recommended by Nominating Committee for re-election under Article 103 of the Company's Constitution at the forthcoming Annual General Meeting to be scheduled on 28 April 2017)
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 13 March 2017)	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	29 April 2016
Present Directorships in other listed companies	Goodland Group Limited (Non-Executive, Lead Independent Director) GDS Global Limited (Non-Executive, Lead Independent Director)
Past Directorships in other listed companies (within the last 3 years)	China Fashion Holdings Limited (Non-Executive, Independent Director) Natural Cool Holdings Limited (Non-Executive, Independent Director) Gaylin Holdings Limited (Non-Executive, Independent Director)

Name of Alternate Director	Sally Yap Mei Yen (Alternate Director to Yap Mui Kee and Corporate Secretary)
Shareholding in the Company (as at 13 March 2017)	88,800 Shares
Board Committees Served	Company Secretary to the Audit Committee, Nominating Committee, and Remuneration Committee
Date of first appointment as Director	20 July 1998
Date of last re-election as Director	29 April 2016 (same as the appointor above)
Present Directorships in other listed companies	None
Past Directorships in other listed companies (within the last 3 years)	None

Corporate Governance Report

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 is 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 can 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 Corporate Secretary of the Company and its local subsidiaries. She is also appointed by Ms. Yap Mui Kee, the Managing Director of the Company to act as the 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 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 are then drawn up to address any areas for improvement.

Corporate Governance Report

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 with the business and progress of the Company, the Management has continuously provided 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 before each scheduled meetings. These would enable the Director 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.

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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 to it are complied with. The appointment and the removal of the Corporate 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.

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- (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 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 FY2016, the RC has not consulted any external remuneration consultant.

Each of the remuneration of the Executive Directors are governed by the separate service agreement entered into with the Company, which took effect on 20 May 2016 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 22%, 22% and 15% 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 FY2016.

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 the 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.

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Due to the confidentiality reason and to protect the Group's interest, guideline 9.2 is not complied with. Appended herein below are a breakdown showing the level and mix of each Director's remuneration and the Managing Director in bands of S\$250,000 for FY 2016:-

Name & Designation	FY2016		FY2015	
	Above S\$250,000 and below S\$500,000	%	Above S\$250,000 and below S\$500,000	%
Neo Koon Boo (Ex-Managing Director – Stepped down on 10 February 2017)	Salary	63	Salary	61
	Fee*	17	Fee	16
	Bonus	15	Bonus	18
	Other Benefits	5	Other Benefits	5
Yap Mui Kee (Managing Director – Redesignated on 10 February 2017)	Salary	57	Salary	58
	Fee*	17	Fee	19
	Bonus	22	Bonus	19
	Other Benefits	4	Other Benefits	4
Tan Kim Sing (Executive Director)	Salary	56	Salary	57
	Fee*	18	Fee	20
	Bonus	22	Bonus	19
	Other Benefits	4	Other Benefits	4

Name & Designation	FY2016		FY2015	
	Below S\$250,000	%	Below S\$250,000	%
Billy Neo Kian Wee (Executive Director – Appointed on 24 February 2017)	Salary	88	Salary	87
	Fee*	–	Fee	–
	Bonus	12	Bonus	13
	Other Benefits	–	Other Benefits	–
Tan Kok Hiang (Non-Executive, Lead Independent Director)	Salary	–	Salary	–
	Fee*	100	Fee	100
	Bonus	–	Bonus	–
	Other Benefits	–	Other Benefits	–

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Name & Designation	FY2016		FY2015	
	Below S\$250,000	%	Below S\$250,000	%
Low Peng Kit (Non-Executive, Independent Director)	Salary	–	Salary	–
	Fee*	100	Fee	100
	Bonus	–	Bonus	–
	Other Benefits	–	Other Benefits	–
Wu Chiaw Ching (Non-Executive, Independent Director)	Salary	–	Salary	–
	Fee*	100	Fee	100
	Bonus	–	Bonus	–
	Other Benefits	–	Other Benefits	–
Sally Yap Mei Yen (Alternate Director ^{##} to Yap Mui Kee and Corporate Secretary ^{@@})	Salary	74	Salary	67
	Fee*	–	Fee	–
	Bonus	26	Bonus	33
	Other Benefits	–	Other Benefits	–

* Fees are subject to the approval of the Shareholders at the AGM for FY2016

According to the **Article 108** of the Company's Constitution 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 below.

Due to confidentiality reason and to protect the Group's interest, guideline 9.3 of the Code is partially complied with. Appended below are a breakdown showing the level and mix of each key management personnel (who are not Directors or the CEO) in bands of S\$250,000 for FY 2016:-

Name & Designation	FY2016		FY2015	
	Below S\$250,000	%	Below S\$250,000	%
Vincent Tan Khar Kheng (Administration and Financial Controller)	Salary	82	Salary	84
	Bonus	18	Bonus	16
	Other Benefits	–	Other Benefits	–
William Yap Yew Weng (Senior Sales Manager)	Salary	96	Salary	96
	Bonus	4	Bonus	4
	Other Benefits	–	Other Benefits	–

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Name & Designation	FY2016		FY2015	
	Below S\$250,000	%	Below S\$250,000	%
Yeo Boon Chan (Procurement Manager)	Salary	84	Salary	84
	Bonus	16	Bonus	16
	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	91
	Bonus	9	Bonus	9
	Other Benefits	–	Other Benefits	–

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

>>> Benny Kok Chee Chuen is nephew of Neo Koon Boo, Ex-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 2016 is as follows:-

Name & Designation	Relationship	FY2016		FY2015	
		Below S\$250,000	%	Below S\$250,000	%
Yeo Wen Torng (ECR-RFID Project Manager)	Spouse of Yap Mui Kee, Managing Director	Salary	82	Salary	84
		Bonus	18	Bonus	16
		Other Benefits	-	Other Benefits	–
Yap Mei Lan (Senior Sales Manager)	Sister of Yap Mui Kee, Managing Director	Salary	73	Salary	74
		Bonus	27	Bonus	26
		Other Benefits	-	Other Benefits	–
Tay Kee Kuang (Director of subsidiary - Lian Hup Packaging Industries Sdn Bhd)	Nephew of Neo Koon Boo, Ex- Managing Director.	Salary	75	Salary	78
		Bonus	17	Bonus	19
		Fee	8	Fee	3
		Other Benefits	–	Other Benefits	–
Tay Kee Soon (Director of subsidiary – LHT Gpac Technology (M) Sdn Bhd)	Nephew of Neo Koon Boo, Ex- Managing Director.	Salary	89	Salary	84
		Bonus	11	Bonus	16
		Fee	–	Fee	–
		Other Benefits	–	Other Benefits	–

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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, bi-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 Managing Director 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 regularly reviews 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 for the Group for the FY 2016 was outsourced to an independent company, D' Ark Services Pte Ltd. The internal auditor 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 auditor 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 for its review 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.

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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 Managing Director and the FC at the Board meeting held on 24 February 2017 that the Group's risk management and internal control systems in place is 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, work performed by the internal and external auditor, 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 is adequate in addressing financial, operational and compliance risks as at 31 December 2016.

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 FY2016, the AC met twice. Details of the members' attendance at AC meetings in FY2016 are provided on page 85 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

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- 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 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.

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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 was given by the management to the external auditors. The AC met with the external auditors without the presence of management on 26 February 2016 and 12 August 2016. 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 2016, page 64, Note 20 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 is 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 whistleblowers. 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 FY2016.

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 discussion on matters in which he is interested.

Review of interested person transactions

The AC has reviewed interested person transactions of the Group for FY2016 and reported its findings to the Board. Please refer to page 81 of the annual report for further details on the interested person transactions of the Group for FY2016.

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 2016, 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, records, properties, and personnel of the Company and the Group.

Corporate Governance Report

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 control 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 2016 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 to 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 promote fair and equitable treatment of all shareholders. All shareholders enjoy specific rights under the Companies Act and the Constitution of the Company. All shareholders are treated fairly and equitably.

The Group respects the equal information rights of all shareholders and is committed to the practice of the 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.

Corporate Governance Report

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 particular dividend policy at present. The form, frequency, and amount of dividends declared each year would 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 Constitution of the Company allows 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 other related security issue 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, Corporate 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 questions 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 while 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 Reporting

LHT has demonstrated its commitment to environmentally responsible operations by reducing its impact on the environment in multiple areas of its businesses through the adoption of ISO 14001 certification since June 2001. The Group strives to align its policies and practices to best-in-class, international and national standards such as ISO 9001, ISO 14001 and Bizsafe certification. This is testimony of the Group's deep appreciation for the natural environment and commitment to protect the environment and prevent pollution. The Group views sustainable operations as a wise investment that helps to improve efficiencies and create value to its various stakeholders.

The Group's Environment, Health and Safety (EHS) Policy reflects its pledge towards a safe, green and sustainable culture. The EHS Policy includes objectives and targets at various departmental level to drive EHS performance and improvement.

The Group continues to refine its management approach to adapt to the ever-changing business environment and global focus on sustainability. The Group's ISO9001, ISO14001, Fire and Safety Committees are tasked to driving safety and environmental compliance and sustainability improvement strategically across the business operations. The Committees initiate, propose new ideas, drive improvements and monitor various aspects of the Group's safety and sustainability programmes.

Objectives and targets

Continual improvements are driven by the Group's environmental objectives and targets. The long term strategy for the Group is to work towards a sustainability plan that covers its value chain, allowing the Group to integrate sustainability into its products and processes. In the meantime, the Group is committed towards achieving the following targets in 2017:

1. Use of Laminated Veneer Lumber (LVL) as raw material;
2. Collection and recycling of horticulture and industrial wood waste;
3. Production of woodchips;
4. Reusing pallets as rental pallets;
5. Host educational plant tours to promote environmental awareness.

Use of LVL as raw material

Timber products are completely renewable. Its raw materials originate from the forest and it utilizes renewable source of energy, which is the sun, to reproduce and regenerate. Once these raw materials are harvested for timber products manufacturing, the resource could be replanted and replenished for future generations to come. Preventing uncontrolled deforestation is potentially one of the simplest ways to reduce global emissions. Reducing deforestation and land-degradation will be vital if temperature increases are to be kept to within safe levels.

The use of Laminated Veneer Lumber (LVL) reduces wastages, increases efficiencies, provides a cost-effective and sustainable alternative to using traditional wood sources like raw timber, while still delivering high structural reliability and strength.

Objective:	To reduce wastages and increase efficiency by using more LVL.
Target (2017):	To use LVL as raw materials in at least 40% of pallets produced

Collection and recycling of horticulture and industrial wood waste

Another important initiative is the collection of horticulture waste and other industrial wood waste. Horticulture waste are collected from forest clearings for urban development projects and from trees and shrubs pruning exercises. Other industrial wood waste are collected from companies which disposes packaging material such as pallets and crates after unloading their goods.

Sustainability Reporting

All these horticulture and industrial wood waste can be disposed by dumping or incinerating or recycling. In land-scarce environment like Singapore, dumping is not a viable option, hence such wood waste is generally incinerated at incineration plants. While incineration is an effective way in handling wood waste, the process of incineration requires fuel, and carbon dioxide is released while the industrial wood waste is being combusted, hence causing air pollution. In order to prevent further damage to the environment and ecosystem, the Group makes an effort to collect and recycle horticulture and industrial wood waste to minimize wastages and pollution to the environment.

Objective: To minimize wastages and pollution by collecting and recycling horticulture and industrial wood waste for recycling.

Target (2017): To collect 24,000 tonnes of horticulture and industrial wood waste.

Production of woodchips

As mentioned above, the Group collects various types of horticulture and industrial wood waste as part of its green initiatives. Together with offcuts and shavings derived from the Group's own production processes, these horticulture and industrial wood waste undergo various processes and are turned into wood fibre and fine woodchips. Woodchips are used as a biomass fuel for power generation. While wood fibre undergo additional processes to remove moisture by drying. The wood fibre then goes through a hammer mill to break them up further and thereafter, mixed with glue and pressed into pre-set moulds via hot press machineries for moulding into the final product, called Technical Wood®.

The uniquely patented Technical Wood® is used as a raw material and incorporated into the manufacture of the Group's main line of products such as pallets, doors and wooden flooring. This product helps contribute to the green profile of companies which purchase them.

Objective: To process horticulture and wood waste into woodchips for internal Technical Wood® production as well as biomass fuel for power generation.

Target (2017): To produce 24,000 tonnes of woodchips.

Reusing pallets as rental pallets

One of the best ways to use a resource is to reuse it. To lessen the impact to the environment and shrink the carbon footprint, the Group has a division which rents out pallets. This is part of the Group's larger goal to minimize the use of natural resources.

Objective: To minimise wood wastages and carbon footprint by recycling pallets for rent.

Target (2017): To rent out at least 70% of pallets available for rent.

Zero-waste management

In an effort to improve environmental sustainability, and at the same time to cut down on wood wastages, the Group has developed a solution by recycling and turning wood waste generated from its production processes into fuel to run our other processes within manufacturing, thereby creating zero-waste manufacturing environment.

Starting from the production process, the Group has designed and installed collectors to collect both fine and coarse saw dust and wood shavings from its sawing, cross-cutting, ripping and planing processes. These saw dusts are then segregated by size and transported to separate saw dust collection bins.

The coarse saw dust are channeled into the kiln dry burner as fuel for the kiln dry processes where finished pallets are kiln-dried to eliminate moisture, or heat-treated to eliminate potential larvae or parasites in the wood.

Sustainability Reporting

The finer saw dust are channeled into the recycling plant boiler system as a fuel for the hot water boiler. In turn, the heat generated from the hot water boiler is then transferred over to the Recycling Plant as fuel to feed into the Technical Wood plant dryer and hot press equipment.

The use of these internally generated saw dust as fuel for the boiler and kiln dry burner to generate heat, which in turn feeds into the dryer and hot press equipment essentially means that the Group no longer have to resort to using diesel and other fossil fuels as fuel for its processes.

Host educational plant tours to promote environmental awareness

LHT encourages staff and various organizations in Singapore and overseas and the general public to develop environmentally friendly habits both at work and at home, especially in the areas of recycling, waste reduction, energy efficiency, etc.

The Group is actively contributing to the society by working with various governmental agencies, corporate and educational institutions to raise awareness of recycling and encourage implementation of Reduce, Reuse and Recycle (The 3Rs). Many of these governmental agencies and educational institutions bring in foreign delegates and study missions to the Group. The Group will then host these delegates and study missions by conducting briefing and plant tours to highlight and showcase how companies are able to meet both corporate and social responsibilities by being creative and forward looking.

Objective: To showcase recycling and zero-waste management and to create environmental awareness
Target (2017): To host at least 4 educational plant tours annually

Policies and commitments

The Group is committed to continuously improve 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 perform with 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 Environmental Council for its Technical Wood® product and Greenflo products. The Group has been presented with the SEC-Senoko Power Green Innovation Award (2005), and was awarded the Sustainability Award by the Singapore Business Federation in 2012, 3R Packaging Award 2013 co-hosted by Singapore Packaging Agreement and National Environment Agency, SMF Business Model Innovation Award by the Singapore Manufacturing Federation and SSWG Merit Award by the Singapore Police Force in 2014.

Statistics of Shareholdings

As at 13 March 2017

SHAREHOLDERS' INFORMATION AS AT 13 MARCH 2017

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 and Subsidiary Holdings	:	Nil

SUBSTANTIAL SHAREHOLDERS

as recorded in the Register of Substantial Shareholders

Name of Substantial Shareholders	Number of Shares		Deemed Interest	%
	Direct Interest	%		
Neo Koon Boo	12,098,147	22.72	–	–
Tan Kim Sing	9,671,205	18.16	*16,250	0.03
Yap Mui Kee	6,615,032	12.42	–	–
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		17	0.38		826	0.00
100	–	1,000		3,219	71.04		1,032,487	1.94
1,001	–	10,000		1,107	24.43		3,234,752	6.08
10,001	–	1,000,000		181	4.00		11,170,649	20.98
1,000,001		and above		7	0.15		37,806,283	71.00
				4,531	100.00		53,244,997	100.00

Statistics of Shareholdings

As at 13 March 2017

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	6,615,032	12.42
4.	Teo Beng Choo	5,097,625	9.58
5.	Lau Koi Fong @ Lau Thim Thai	2,099,797	3.94
6.	Raffles Nominees (Pte) Ltd	1,155,437	2.17
7.	Yeo Boon Chan	1,069,040	2.01
8.	Jonathan Chadwick	945,000	1.78
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	486,400	0.91
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.	Gunawan Yacup	292,000	0.55
16.	OCBC Securities Private Ltd	262,062	0.49
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	244,387	0.46
	Total	43,364,132	81.44

Free Float

Based on information available to the Company as at 13 March 2017, approximately 34.10% 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, 28 April 2017 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 2016 together with the Auditors’ Report thereon. **(Resolution 1)**
2. To re-elect Mr Low Peng Kit who is retiring pursuant to Article 103 of the Company’s Constitution. **[See Explanatory Note (i)] (Resolution 2)**
3. To re-elect Mr Tan Kim Sing who is retiring pursuant to Article 103 of the Company’s Constitution. **[See Explanatory Note (ii)] (Resolution 3)**
4. To re-elect Mr Billy Neo Kian Wee who is retiring pursuant to Article 107 of the Company’s Constitution. **[See Explanatory Note (iii)] (Resolution 4)**
5. To declare a first and final one-tier tax exempt dividend of S\$0.05 (2015: S\$0.03) per ordinary share for the year ended 31 December 2016. **(Resolution 5)**
6. To approve the payment of Directors’ fees of S\$148,000 for the year ended 31 December 2016 (2015: 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 Constitution 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,

Notice of Annual General Meeting

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 Constitution 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 (iv)]** **(Resolution 8)**

By Order of the Board

Sally Yap Mei Yen
Company Secretary

Singapore, 10 April 2017

Notice of Annual General Meeting

Explanatory Notes:

- (i) Mr Low Peng Kit will, upon re-elected as a Director, remain as Chairman of the Nominating Committee and a member of the Audit Committee and Remuneration Committee. Mr Low Peng Kit is considered as an Independent Director of the Company.
- (ii) Mr Tan Kim Sing will, upon re-elected as a Director, remain as Director of the Company. Mr Tan Kim Sing is considered an Executive and Non-Independent Director.
- (iii) Mr Billy Neo Kian Wee will, upon re-elected as a Director, remain as Director of the Company. Mr Billy Neo Kian Wee is considered an Executive and Non-Independent Director.
- (iv) **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 (2) proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. A member who is a 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 Annual General 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 2017, for the preparation of dividend warrants for the first and final one-tier tax exempt dividend of S\$0.05 per ordinary share for the financial year ended 31 December 2016 (“Proposed Dividend”).

Duly completed and registrable transfers received by the Company’s Share Registrar, B.A.C.S Private Limited, at 8 Robinson Road, #03-00, ASO Building, Singapore 048544 up to 5.00 p.m. on 17 May 2017 will be registered to determine Members’ entitlements to the Proposed Dividend.

Members whose Securities Accounts with The Central Depository (Pte) Ltd are credited with shares at 5.00 p.m. on 17 May 2017 will be entitled to the Proposed Dividend.

The Proposed Dividend, if approved by the shareholders at the Annual General Meeting to be held on 28 April 2017, will be paid on 26 May 2017.

By Order of the Board

Sally Yap Mei Yen
Company Secretary

Singapore, 10 April 2017

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.

IMPORTANT

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")
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.
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, 28 April 2017 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 2016		
2	Re-election of Mr Low Peng Kit as a Director of the Company		
3	Re-election of Mr Tan Kim Sing as a Director of the Company		
4	Re-election of Mr Billy Neo Kian Wee as a Director of the Company		
5	Approval of first and final one-tier tax exempt dividend of S\$0.05 per ordinary share		
6	Approval of Directors' fees amounting to S\$148,000		
7	Re-appointment of Messrs BDO LLP as Auditors		
8	Authority to allot and issue new shares		

(If you wish to exercise all your vote "For" or "Against", please indicate with a cross [X] within the box provided. Alternatively, please indicate the number of votes as appropriate.)

Dated this _____ day of _____ 2017

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 a 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 Gentoertahle: 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 10 April 2017.

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LHT HOLDINGS LIMITED

(Company Registration Number: 198003094E)

27 Sungei Kadut Street 1, Singapore 729335

☎ (65) 6269 7890

🖨 (65) 6367 4907

🌐 <http://www.lht.com.sg>

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<http://www.ecrpallet.com>

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<http://www.greenflo.com>

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