



HAFARY HOLDINGS LIMITED

合發利控股有限公司

Company Registration No. 200918637C

Registered Address: 105 Eunos Avenue 3, Hafary Centre, Singapore 409836

Unaudited Financial Statements and Dividend Announcement For the Second Quarter ("2Q2016") and Half Year ("HY2016") Ended 30 June 2016

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

	Group			Group		
	Unaudited 2Q2016	Unaudited 2Q2015	Increase/ (Decrease)	Unaudited HY2016	Unaudited HY2015	Increase/ (Decrease)
	(3 months) S\$'000	(3 months) S\$'000	(Decrease) %	(6 months) S\$'000	(6 months) S\$'000	(Decrease) %
Revenue	27,453	33,883	(19.0)	49,219	59,423	(17.2)
Dividend Income	12	23	(47.8)	12	23	(47.8)
Interest Income	21	18	16.7	39	37	5.4
Other Gains	179	338	(47.0)	454	269	68.8
Changes in Inventories of Finished Goods	385	1,796	(78.6)	520	632	(17.7)
Purchases and Related Costs	(16,756)	(22,229)	(24.6)	(29,962)	(37,121)	(19.3)
Employee Benefits Expense	(4,169)	(3,987)	4.6	(8,425)	(7,683)	9.7
Depreciation Expense	(904)	(833)	8.5	(1,778)	(1,643)	8.2
Impairment Losses	(31)	(293)	(89.4)	(228)	(638)	(64.3)
Other Losses	(226)	(271)	(16.6)	(348)	(482)	(27.8)
Finance Costs	(576)	(645)	(10.7)	(1,222)	(1,220)	0.2
Other Expenses	(2,702)	(2,563)	5.4	(5,398)	(5,020)	7.5
Share of Profit (Loss) from an Equity-Accounted Associate	416	(29)	N.M	620	171	262.6
Share of Profit (Loss) from an Equity-Accounted Joint Venture	19	(6)	N.M	(71)	(104)	(31.7)
Profit Before Tax	3,121	5,202	(40.0)	3,432	6,644	(48.3)
Income Tax Expense	(440)	(727)	(39.5)	(482)	(877)	(45.0)
Profit, Net of Tax	2,681	4,475	(40.1)	2,950	5,767	(48.8)
Other Comprehensive Income:						
Items that may be reclassified subsequently to Profit or Loss:						
Exchange Differences on Translating Foreign Operations, Net of Tax	(255)	(226)	12.8	(957)	155	N.M
Other Comprehensive (Loss) Income for the Period, Net of Tax	(255)	(226)	12.8	(957)	155	N.M
Total Comprehensive Income	2,426	4,249	(42.9)	1,993	5,922	(66.3)
Profit, Net of Tax Attributable to:						
- Owners of the Parent	2,517	4,135	(39.1)	2,705	5,260	(48.6)
- Non-Controlling Interests	164	340	(51.8)	245	507	(51.7)
	2,681	4,475	(40.1)	2,950	5,767	(48.8)
Total Comprehensive Income Attributable to:						
- Owners of the Parent	2,262	3,909	(42.1)	1,748	5,415	(67.7)
- Non-Controlling Interests	164	340	(51.8)	245	507	(51.7)
	2,426	4,249	(42.9)	1,993	5,922	(66.3)

Notes:

(1) N.M = Not meaningful.

(2) HY2015 = Financial period of 6 months ended 30 June 2015.

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

	Group			Group		
	Unaudited 2Q2016	Unaudited 2Q2015	Increase/ (Decrease)	Unaudited HY2016	Unaudited HY2015	Increase/ (Decrease)
	(3 months) S\$'000	(3 months) S\$'000	(Decrease) %	(6 months) S\$'000	(6 months) S\$'000	(Decrease) %
Interest Expense on Borrowings	(576)	(645)	(10.7)	(1,222)	(1,220)	0.2
Interest Income on Borrowings	21	18	16.7	39	37	5.4
Depreciation Expense	(904)	(833)	8.5	(1,778)	(1,643)	8.2
Allowance for Impairment of Trade Receivables	(116)	(165)	(29.7)	(116)	(393)	(70.5)
Allowance for Impairment of Trade Receivables, Reversal	32	4	N.M	58	4	N.M
Bad Debts Recovered - Trade Receivables	35	10	250.0	38	11	245.5
Bad Debts Written Off - Trade Receivables	(16)	-	N.M	(31)	(1)	N.M
Net Reversal/ (Net Allowance) for Impairment of Inventories	34	(142)	(123.9)	(177)	(259)	(31.7)
Foreign Exchange Adjustment (Losses) Gains	(227)	(271)	(16.2)	210	(483)	(143.5)
Fair Value Gains (Loss) on Derivative Financial Instruments	119	300	(60.3)	(348)	110	(416.4)
Adjustment for Over Provision of Tax in respect of Prior Years	-	-	N.M	5	4	25.0
Gains on Disposal of Property, Plant and Equipment	8	37	(78.4)	8	37	(78.4)
Dividend Income	12	23	(47.8)	12	23	(47.8)

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

	Group		Company	
	Unaudited 30 June 2016 S\$'000	Audited 31 Dec 2015 S\$'000	Unaudited 30 June 2016 S\$'000	Audited 31 Dec 2015 S\$'000
ASSETS				
Non-Current Assets:				
Property, Plant and Equipment	116,564	97,871	268	301
Other Assets	4,550	4,950	-	-
Investments in Subsidiaries	-	-	9,239	9,239
Investment in Associate	6,004	5,384	-	-
Investment in Joint Venture	198	318	-	-
Other Financial Assets	2,824	2,971	793	793
Total Non-Current Assets	130,140	111,494	10,300	10,333
Current Assets:				
Inventories	47,382	46,979	-	-
Trade and Other Receivables	33,705	43,223	26,520	27,055
Derivative Financial Assets	-	44	-	-
Other Assets	4,549	3,801	4	10
Cash and Cash Equivalents	3,138	8,531	27	26
Total Current Assets	88,774	102,578	26,551	27,091
Total Assets	218,914	214,072	36,851	37,424
EQUITY AND LIABILITIES				
Equity:				
Share Capital	26,634	26,634	26,634	26,634
Retained Earnings (Accumulated Losses)	23,884	23,324	9	(189)
Other Reserves	(74)	829	173	119
Equity, Attributable to Owners of the Parent	50,444	50,787	26,816	26,564
Non-Controlling Interests	4,058	4,011	-	-
Total Equity	54,502	54,798	26,816	26,564
Non-Current Liabilities:				
Deferred Tax Liabilities	448	383	-	-
Other Financial Liabilities	82,384	65,868	105	121
Total Non-Current Liabilities	82,832	66,251	105	121
Current Liabilities:				
Provisions	416	525	-	-
Income Tax Payable	2,265	3,648	2	4
Trade and Other Payables	24,696	30,182	9,896	10,704
Other Financial Liabilities	52,963	57,773	32	31
Other Liabilities	936	895	-	-
Derivative Financial Liabilities	304	-	-	-
Total Current Liabilities	81,580	93,023	9,930	10,739
Total Liabilities	164,412	159,274	10,035	10,860
Total Equity and Liabilities	218,914	214,072	36,851	37,424

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

Amount repayable in one year or less, or on demand

	Group			
	Unaudited		Audited	
	As at 30 June 2016		As at 31 December 2015	
	Secured	Unsecured	Secured	Unsecured
	S\$'000	S\$'000	S\$'000	S\$'000
Bank Loans	32,252	-	29,067	-
Trust Receipts and Bills Payable to Banks	20,216	-	28,415	-
Finance Lease Liabilities	495	-	291	-
	52,963	-	57,773	-

Amount repayable after one year

	Group			
	Unaudited		Audited	
	As at 30 June 2016		As at 31 December 2015	
	Secured	Unsecured	Secured	Unsecured
	S\$'000	S\$'000	S\$'000	S\$'000
Bank Loans	81,695	-	65,544	-
Finance Lease Liabilities	689	-	324	-
	82,384	-	65,868	-

Details of collaterals relating to the above borrowings

Bank Loans

These are covered by:

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

Borrowing drawn down in relation to the acquisition and development of leasehold property at 18 Sungei Kadut Street 2, Sungei Kadut Industrial Estate, Singapore 729236 is secured by first legal mortgage over the leasehold property and the proposed development to be erected thereon into a 7-storey building of a subsidiary. It is also covered by joint and several corporate guarantees from Hafary Holdings Limited and a subsidiary, and personal guarantees from a director and a substantial shareholder.

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

Trust Receipts and Bills Payable to Banks

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

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

	Group		Group	
	Unaudited	Unaudited	Unaudited	Unaudited
	2Q2016	2Q2015	HY2016	HY2015
	(3 months)	(3 months)	(6 months)	(6 months)
	S\$'000	S\$'000	S\$'000	S\$'000
Cash Flows From Operating Activities				
Profit Before Income Tax	3,121	5,202	3,432	6,644
Adjustments for:				
Interest Expense	576	645	1,222	1,220
Interest Income	(21)	(18)	(39)	(37)
Dividend Income	(12)	(23)	(12)	(23)
Share of (Profit) Loss from Associate	(416)	29	(620)	(171)
Share of (Profit) Loss from Joint Venture	(19)	6	71	104
Equity-Settled Share-Based Expenses	30	-	54	-
Depreciation of Property, Plant and Equipment	869	798	1,710	1,572
Depreciation of Other Asset	35	35	68	71
Gain on Disposal of Property, Plant and Equipment	(8)	(37)	(8)	(37)
Fair Value (Gain) Loss on Derivative Financial Instruments	(119)	(300)	348	(110)
Net Effect of Exchange Rate Changes in Consolidating Subsidiaries	118	83	24	(62)
Operating Cash Flows Before Changes in Working Capital	4,154	6,420	6,250	9,171
Inventories	(439)	(1,655)	(403)	(373)
Trade and Other Receivables	(629)	(9,699)	9,541	(7,401)
Other Assets	(1,053)	18	(748)	3,488
Provisions	(9)	133	(109)	(46)
Trade and Other Payables	1,105	5,068	(4,386)	(1,154)
Other Liabilities	357	734	41	878
Net Cash Flows From Operations	3,486	1,019	10,186	4,563
Income Taxes Paid	(1,581)	(251)	(1,800)	(632)
Net Cash Flows From Operating Activities	1,905	768	8,386	3,931
Cash Flows From Investing Activities				
Purchase of Property, Plant and Equipment	(13,024)	(739)	(22,899)	(1,452)
Proceeds from Disposal of Property, Plant and Equipment	17	355	17	355
Dividend Received from Joint Venture	49	-	49	-
Dividend Received	12	23	12	23
Interest Received	10	50	16	56
Investment in Other Financial Assets	-	-	-	(2,162)
Net Cash Flows Used in Investing Activities	(12,936)	(311)	(22,805)	(3,180)
Cash Flows From Financing Activities				
Dividends Paid to Equity Owners	(2,145)	(2,145)	(2,145)	(2,145)
Dividends Paid to Non-Controlling Interests	(348)	-	(348)	-
Capital Contribution from Non-Controlling Interests	150	-	150	-
Decrease in Trust Receipts and Bills Payable	(766)	(1,670)	(8,199)	(3,172)
Net Amount Due to Related Parties	546	-	1,106	-
Repayment of Finance Lease Liabilities	(106)	(211)	(178)	(257)
Increase from New Borrowings	12,842	4,187	23,337	6,187
Repayment of Bank Loans	(1,136)	(533)	(3,254)	(1,051)
Interest Expense Paid	(601)	(623)	(1,312)	(1,178)
Net Cash Flows From (Used in) Financing Activities	8,436	(995)	9,157	(1,616)
Net Decrease in Cash and Cash Equivalents	(2,595)	(538)	(5,262)	(865)
Net Effect of Exchange Rate Changes on Cash and Cash Equivalents	(39)	(8)	(131)	18
Cash and Cash Equivalents, Beginning Balance	5,772	4,957	8,531	5,258
Cash and Cash Equivalents, Ending Balance	3,138	4,411	3,138	4,411

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

GROUP	Total Equity S\$'000	Attributable to Parent Subtotal S\$'000	Share Capital S\$'000	Retained Earnings S\$'000	Other Reserves S\$'000	Non-Controlling Interests S\$'000
Current Period (Unaudited):						
Opening Balance at 1 January 2016	54,798	50,787	26,634	23,324	829	4,011
Total Comprehensive (Loss) Income for the Period	(433)	(514)	-	188	(702)	81
Equity-Settled Share-Based Expenses	24	24	-	-	24	-
Closing Balance at 31 March 2016	54,389	50,297	26,634	23,512	151	4,092
Total Comprehensive Income (Loss) for the Period	2,426	2,262	-	2,517	(255)	164
Capital Contribution by Non Controlling interest	150	-	-	-	-	150
Equity-Settled Share-Based Expenses	30	30	-	-	30	-
Dividends Paid (2)	(2,145)	(2,145)	-	(2,145)	-	-
Dividends Paid to Non-Controlling Interests	(348)	-	-	-	-	(348)
Closing Balance at 30 June 2016	54,502	50,444	26,634	23,884	(74)	4,058
Previous Period (Unaudited):						
Opening Balance at 1 January 2015	43,350	40,059	26,634	12,923	502	3,291
Total Comprehensive Income for the Period	1,673	1,506	-	1,125	381	167
Closing Balance at 31 March 2015	45,023	41,565	26,634	14,048	883	3,458
Total Comprehensive Income for the Period	4,249	3,909	-	4,135	(226)	340
Dividends Paid (2)	(2,145)	(2,145)	-	(2,145)	-	-
Closing Balance at 30 June 2015	47,127	43,329	26,634	16,038	657	3,798

COMPANY	Total Equity S\$'000	Share Capital S\$'000	Retained Earnings S\$'000	Others Reserve S\$'000
Current Period (Unaudited):				
Opening Balance at 1 January 2016	26,564	26,634	(189)	119
Total Comprehensive Income for the Period	2,336	-	2,336	-
Equity-Settled Share-Based Expenses	24	-	-	24
Closing Balance at 31 March 2016	28,924	26,634	2,147	143
Total Comprehensive Income for the Period	7	-	7	-
Equity-Settled Share-Based Expenses	30	-	-	30
Dividends Paid (2)	(2,145)	-	(2,145)	-
Closing Balance at 30 June 2016	26,816	26,634	9	173
Previous Period (Unaudited):				
Opening Balance at 1 January 2015	26,776	26,634	142	-
Total Comprehensive Income for the Period	2,168	-	2,168	-
Closing Balance at 31 March 2015	28,944	26,634	2,310	-
Total Comprehensive Income for the Period	71	-	71	-
Dividends Paid (2)	(2,145)	-	(2,145)	-
Closing Balance at 30 June 2015	26,870	26,634	236	-

Note:

	Group		Company	
	30 June 2016 S\$'000	30 June 2015 S\$'000	30 June 2016 S\$'000	30 June 2015 S\$'000
Other Reserves				
Foreign currency translation reserve	(247)	657	-	-
Equity-settled share based compensation reserve	173	-	173	-
	(74)	657	173	-

	Unaudited HY2016 S\$'000	Unaudited HY2015 S\$'000
Dividends on Equity Shares		

Interim tax exempt (1-tier) dividend paid of:

- 0.5 cent per share on total number of issued ordinary shares of 429,000,000

2,145	2,145
<u>2,145</u>	<u>2,145</u>

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

	Company			
	Unaudited HY2016		Unaudited HY2015	
	No. of Shares	S\$'000	No. of Shares	S\$'000
Total number of shares at the beginning and end of the period	429,000,000	26,634	429,000,000	26,634

The Company has no outstanding convertibles or treasury shares as at 30 June 2016 and 30 June 2015.

On 1 August 2014, Awards under the Hafary Performance Share Plan ("Hafary PSP") comprising 1,550,000 ordinary shares were granted to certain Group Executives who are not Executive Directors or Independent Directors. This grant of Awards and the details was announced via SGXNET on 1 August 2014. The Awards will be released subject to terms and conditions of the Hafary PSP being met during the Performance Period of three years. In 2015, 250,000 of performance shares were cancelled under the plan.

On 1 March 2016, Awards under the Hafary Performance Share Plan ("Hafary PSP") comprising 250,000 ordinary shares were granted to a Group Executive who is not Executive Director or Independent Director. This grant of Awards and the details was announced via SGXNET on 1 March 2016. The Awards will be released subject to terms and conditions of the Hafary PSP being met during the Performance Period of 16 months.

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

Company	
Unaudited 30 June 2016	Audited 31 Dec 2015
429,000,000	429,000,000

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

The Company has no treasury shares as at 30 June 2016 and there were no sale transfer, disposal, cancellation and/ or use of treasury shares during HY2016.

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

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

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

Not applicable.

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

The Group had adopted the new and/or revised Financial Reporting Standards (the "FRS") and Interpretations of FRS ("INT FRS") that are effective for annual periods beginning on or after 1 January 2016. Changes to the Group's accounting policies have been made in accordance with the transitional provisions in the respective FRS and INT FRS. The adoption of the new and/or revised FRS and INT FRS did not result in any substantial changes or significant impact on the Group's financial statements.

Except for the above, the Group has adopted the same accounting policies and methods of computation as presented in the audited financial statements of the Group for the reporting year ended 31 December 2015.

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

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

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

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

	Group		Group	
	Unaudited 2Q2016 (3 months)	Unaudited 2Q2015 (3 months)	Unaudited HY2016 (6 months)	Unaudited HY2015 (6 months)
Earnings per ordinary share				
(a) Basic	0.59 cents	0.96 cents	0.63 cents	1.23 cents
Weighted average number of ordinary shares	429,000,000	429,000,000	429,000,000	429,000,000
(b) On a fully diluted basis	0.59 cents	0.96 cents	0.63 cents	1.23 cents
Weighted average number of ordinary shares	429,971,000	429,000,000	429,971,000	429,000,000

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

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

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

	Group		Company	
	30 June 2016	31 Dec 2015	30 June 2016	31 Dec 2015
Net asset value per ordinary share based on the total number of share in issue	11.8 cents	11.8 cents	6.3 cents	6.2 cents

Note:

Net asset value per ordinary share is calculated based on 429,000,000 ordinary shares as at 30 June 2016 and 30 June 2015.

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

- (a) any significant factors that affected the turnover, costs, and earnings of the Group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the Group during the current financial period reported on.**

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

Revenue

For 2Q2016, the Group registered a revenue of S\$27.5 million compared to S\$33.9 million during 2Q2015. For HY2016, the Group registered a revenue of S\$49.2 million compared to S\$59.4 million during HY2015.

General segment

For 3 months ended, revenue from the general segment (where customers include home-owners, architect, interior design and renovation firms) decreased by S\$1.7 million or 10.5% from S\$16.4 million during 2Q2015 to S\$14.7 million during 2Q2016. For half year ended, revenue from general segment decreased by S\$3.0 million or 10.7% from S\$28.1 million during HY2015 to S\$25.1 million during HY2016.

Project segment

For 3 months ended, revenue from the project segment (where customers include architect, property developers and construction companies) decreased by S\$4.9 million or 28.8% from S\$17.0 million during 2Q2015 to S\$12.1 million during 2Q2016. For half year ended, revenue from general segment decreased by S\$7.1 million or 23.7% from S\$30.0 million during HY2015 to S\$22.9 million during HY2016.

Interest Income

Interest income mainly arose from loan to associate, Viet Ceramics International Joint Stock Company ('VCI'), to finance VCI's expansion in Vietnam.

Other Gains

For 2Q2016, other gains comprised mainly of fair value gains on derivative financial instruments of S\$0.1 million. Other gains during HY2016 mainly comprised of foreign exchange adjustment gain of S\$0.2 million and government grant income of S\$0.2 million.

Other gains during 2Q2015 comprised mainly of fair value gains on derivative financial instruments of S\$0.3 million. Other gains during HY2015 mainly comprised of fair value gains on derivative financial instruments of S\$0.1 million and government grant income of S\$0.1 million.

Cost of Sales

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

For 3 months ended, cost of sales decreased by S\$4.0 million or 19.9% from S\$20.4 million during 2Q2015 to S\$16.4 million during 2Q2016. For half year ended, cost of sales decreased by S\$7.1 million or 19.3% from S\$36.5 million during HY2015 to S\$29.4 million in HY2016.

The gross profit margin (based on revenue from sale of goods (excluding rental and other income), purchase cost of goods and related costs, without taking into account labour costs and overheads) of 39.0% for 2Q2016 (HY2016: 38.6%) has improved compared to 38.6% for 2Q2015 (HY2015: 37.2%).

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

Employee Benefits Expenses

For 3 months ended, employee benefits expenses increased by S\$0.2 million or 4.6% from S\$4.0 million during 2Q2015 to S\$4.2 million during 2Q2016. For half year ended, employee benefits expenses increased by S\$0.7 million or 9.7% from S\$7.7 million during HY2015 to S\$8.4 million during HY2016.

The increase was mainly due to annual salary increment with effect from July 2015, overtime expenses incurred and increase in headcount to cope with the increased volume of business of the Group.

As at the end of HY2016, the Group had 310 employees (including directors) (HY2015: 290 employees).

Depreciation Expense

For 3 months ended, depreciation expense increased by S\$0.1 million or 8.5% from S\$0.8 million during 2Q2015 to S\$0.9 million during 2Q2016. For half year ended, depreciation expense increased by S\$0.1 million or 8.2% from S\$1.7 million during HY2015 to S\$1.8 during HY2016. The increase was due to increase in property, plant and equipment held by the Group.

Impairment Losses

For 3 months ended, impairment losses decreased by S\$0.3 million or 89.4% from S\$0.3 million during 2Q2015 to S\$31,000 during 2Q2016. For half year ended, impairment losses decreased by S\$0.4 million from S\$0.6 million during HY2015 to S\$0.2 million during HY2015.

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

Other Losses

For 2Q2016, other losses comprised of foreign exchange loss adjustment amounting to S\$0.2 million. For half year ended, other losses comprised of fair value losses on derivative financial instruments on S\$0.3 million.

For 2Q2015 and HY2015, other losses mainly comprised of foreign exchange loss adjustment.

Finance Costs

For 3 months ended, finance costs decreased by S\$0.1 million or 10.7% from S\$0.7 million during 2Q2015 to S\$0.6 million during 2Q2016. For half year ended, finance cost were S\$1.2 million for each of 6 months ended 30 June 2016 and 30 June 2015.

Other Expenses

For 3 months ended, other expenses increased by S\$0.1 million or 5.4% from S\$2.6 million during 2Q2015 to S\$2.7 million during 2Q2016. For half year ended, other expenses increased by S\$0.4 million or 7.5% from S\$5.0 million during HY2015 to S\$5.4 million during HY2016.

For 3 month ended, the increase was mainly attributable to an increase in rental expense, travelling expense and entertainment expense. The above increase was partially offset by decrease in hire of motor vehicle and machinery and casual labour.

For 6 month ended, the increase was mainly attributable to an increase in rental expense, travelling expense and entertainment expense. The above increase was partially offset by decrease in professional fee, hire of motor vehicle and machinery and casual labour.

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

Share of Profit/ (Loss) from Equity-Accounted Associate

For 2Q2016, share of profit from associate, VCI, amounted to S\$0.4 million. (2Q2015: share of loss from associate amounted to S\$29,000). For HY2016, share of profit from associate amounted to S\$0.6 million (HY2015: S\$0.2 million). The increase in share of profit is due to improved financial performance of VCI on the back of a better economic climate in Vietnam.

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

Share of profit from joint venture, Melmer Stoneworks Pte. Ltd. ("MSPL"), amounted to S\$19,000 during 2Q2016 (2Q2015: share of loss from joint venture of S\$6,000). For HY2016 and HY2015, share of loss from joint venture was S\$0.1 million.

Profit Before Income Tax

For 3 months ended, profit before income tax decreased by S\$2.1 million or 40.0% from S\$5.2 million during 2Q2015 to S\$3.1 million during 2Q2016. For half year ended, profit before income tax decreased by S\$3.2 million or 48.3% from S\$6.7 million during HY2015 to S\$3.4 million during HY2016.

The lower profit before income tax for 2Q2016 and HY2016 was largely due to decrease in revenue and increase in employee benefits expenses.

Excluding share of profits from associate and joint venture amounting to S\$0.4 million (2Q2015: share of loss of S\$35,000), profit before income tax generated from recurring activities was S\$2.7 million for 2Q2016 (2Q2015: S\$5.2 million). For half year ended, excluding the share of profit from associate and joint venture amounting to S\$0.5 million (HY2015: S\$0.1 million), profit before income tax generated from recurring activities was S\$2.9 million for HY2016 (HY2015: S\$6.6 million)

Other Comprehensive Income

This pertained to foreign exchange difference on translating foreign operations.

Income Tax Expense

The effective tax rate (excluding deferred tax, share of results from equity-accounted associate and joint venture) for 2Q2016 was 14.2% (2Q2015: 15.8%). The effective tax rate for HY2016 was 14.6% (HY2015: 14.9%).

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

Non-Current Assets

Non-current assets increased by S\$18.6 million or 16.7% from S\$111.5 million as at 31 December 2015 to S\$130.1 million as at 30 June 2016.

Property, plant and equipment increased by S\$18.7 million from S\$97.9 million as at 31 December 2015 to S\$116.6 million as at 30 June 2016. The increase was mainly due to:

- a) Capitalisation of land rents, construction cost, property tax and borrowing costs during redevelopment to leasehold property at 18 Sungei Kadut Street 2 amounting to S\$15.1 million;
- b) Purchased one unit of shophouse located at 532 Balestier Road, Singapore 329859, Lot No. MK17-1015X amounting to S\$4.3 million (inclusive of stamp duty) by its subsidiary, Hafary Balestier Showroom Pte Ltd.
- c) Purchased plant and equipment amounting to S\$1.1 million; and
- d) Purchased motor vehicles amounting to S\$0.3 million.

The above increase in property, plant and equipment was partially offset by depreciation expense amounting to S\$1.7 million and foreign exchange loss adjustment amounting to S\$0.4 million.

The decrease in other asset (land use rights relating to leasehold land in Foshan Hafary Trading Co., Limited) amounting to S\$0.4 million was due to foreign exchange adjustment.

The increase in investment in associate amounting to S\$0.6 million pertained to share of profits from VCI during HY2016. The decrease in investment in joint venture amounting to S\$0.1 million pertained to share of loss and dividend received from MSPL.

Other financial asset decreased by S\$0.2 million from S\$3.0 million as at 31 December 2015 to S\$2.8 million as at 30 June 2016. The decrease was due to foreign exchange loss adjustment amounting to S\$0.2 million.

Current Assets

Current assets decreased by S\$13.8 million or 13.5% from S\$102.6 million as at 31 December 2015 to S\$88.8 million as at 30 June 2016.

The decrease was mainly due to decrease in trade and other receivables by S\$9.5 million and decrease in cash and cash equivalents by S\$5.4 million. The above increase in current assets was partially offset by increase in other asset amounting to S\$0.7 million and increase in inventories amounting to S\$0.4 million.

Trade receivables turnover as at 30 June 2016 is 113 days compared to 97 days as at 31 December 2015.

The increased in other assets of S\$0.7 million from S\$3.8 million as at 31 December 2015 to S\$4.5 million as at 30 June 2016 is mainly due to increase in advance payment to suppliers.

Non-Current Liabilities

Non-current liabilities increased by S\$16.6 million or 25.0% from S\$66.2 million as at 31 December 2015 to S\$82.8 million as at 30 June 2016.

Other financial liabilities (non-current) increased by S\$16.5 million mainly due to proceeds from drawdown of loans pertaining to development of properties of World Furnishing Hub and purchase of shophouse by subsidiaries.

Deferred tax liabilities increased by S\$0.1 million from S\$0.4 million as at 31 December 2015 to S\$0.5 million as at 30 June 2016.

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

Current Liabilities

Current liabilities decreased by S\$11.4 million or 12.3% from S\$93.0 million as at 31 December 2015 to S\$81.6 million as at 30 June 2016.

The decrease was mainly attributable to decrease in other financial liabilities by S\$4.7 million, trade and other payables by S\$5.5 million, income tax payable by S\$1.4 million and provision by S\$0.1 million. The decrease was partially offset by derivative financial instruments by S\$0.3 million.

Total amount of trade payables and trust receipts and bills payable to banks was S\$39.9 million (31 December 2015: S\$54.0 million). The turnover of the aforesaid items (based on cost of sales) is 214 days as at 30 June 2016 (31 December 2015: 205 days).

The decrease in other financial liabilities was mainly due to decrease in trust receipts and bills payable to banks by S\$8.2 million and net proceed from loan amounting to S\$3.2 million.

Other Reserves

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

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

Cash Flows Review

HY2016

Net cash flows from operating activities was S\$8.4 million due to operating cash flows before working capital changes of S\$6.3 million and net cash flows from working capital of S\$3.9 million and income taxes paid of S\$1.8 million. The net cash flows from working capital of S\$3.9 million was mainly attributable to a decrease in trade and other receivables of S\$9.5 million. This was partially offset by a decrease in trade and other payables of S\$4.4 million, increase in other assets of S\$0.7 million, increase in inventories of S\$0.4 million and decrease in provision of S\$0.1 million.

Net cash flows used in investing activities amounting to S\$22.8 million for HY2016 was attributable to cash outflows of S\$22.9 million for purchase of property, plant and equipment and it is slightly offset by dividend received of S\$0.1 million.

Net cash flows from financing activities amounting to S\$9.1 million for HY2016 was mainly attributable by the proceeds from new bank loans of S\$23.3 million, amount due to related parties of S\$1.1 million and capital contribution from non-controlling interests of S\$0.2 million.

This was partially offset by the followings:

- a) Decrease in trust receipt and bills payables of S\$8.2 million;
- b) Dividend paid to equity owners and non-controlling interests of S\$2.5 million;
- c) Repayment of finance lease liabilities of S\$0.2 million;
- d) Repayment of bank loans of S\$3.3 million; and
- e) Interest expenses paid of S\$1.3 million.

As a result of the above, there was a net decrease of S\$5.3 million in cash and cash equivalents for HY2016. Cash and cash equivalents as at 30 June 2016 was S\$3.1 million.

2Q2016

Net cash flows from operating activities was S\$1.9 million due to operating cash flows before working capital changes of S\$4.2 million and net cash flows from working capital of S\$0.7 million and income taxes paid of S\$1.6 million. The net cash flows from working capital of S\$0.7 million was mainly attributable to an increase in trade and other receivables of S\$0.6 million, increase in other assets of S\$1.0 million and increase in inventories of S\$0.5 million. This was partially offset by an increase in trade and other payables of S\$1.1 million and other liabilities of S\$0.3 million.

Net cash flows used in investing activities amounting to S\$12.9 million for 2Q2016 was attributable to cash outflows of S\$13.0 million for purchase of property, plant and equipment and dividend received of S\$0.1 million.

Net cash flows from financing activities amounting to S\$8.4 million for 2Q2016 was mainly attributable by the proceeds from new bank loans of S\$12.8 million, amount due to related parties of S\$0.5 million and capital contribution from non-controlling interests of S\$0.2 million.

This was partially offset by the followings:

- a) Decrease in trust receipt and bills payables of S\$0.8 million;
- b) Dividend paid to equity owners and non-controlling interests of S\$2.5 million;
- c) Repayment of finance lease liabilities of S\$0.1 million;
- d) Repayment of bank loans of S\$1.1 million; and
- e) Interest expenses paid of S\$0.6 million.

As a result of the above, there was a net decrease of S\$2.6 million in cash and cash equivalents for 2Q2016. Cash and cash equivalents as at 30 June 2016 was S\$3.1 million.

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

There is no material variance between the information previously disclosed in Paragraph 10 of the results announcement for the year ended 31 December 2015 and the actual results for the year ended 30 June 2016.

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

The Building and Construction Authority of Singapore (BCA) projected construction demand of between S\$27 billion and S\$34 billion for year 2016, with about 65% driven by public sector demand. Key projects in year 2016 include the ramp-up in the Home Improvement Programme for Housing Development Board (HDB) flats, the construction of the new National Cancer Centre, State Courts' new building at Havelock Square and remaining contracts for the Thomson-East Coast MRT line. For 2017 to 2020, BCA expects construction demand to range between S\$26 billion and S\$37 billion each year, with 60% from building projects and the remaining from civil engineering projects.

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

11 Dividend

(a) Dividend declared for the current financial period

No dividend has been declared for 2Q2016.

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

No dividend was declared during 2Q2015.

(c) Date Payable

Not applicable.

(d) Books closure date

Not applicable.

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

No dividend has been declared/ recommended for 2Q2016.

13 Interested Person Transactions ("IPTs")

Name of Interested Person and nature of IPT	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000)	
	Not conducted under shareholders' mandate pursuant to Rule 920	Conducted under shareholders' mandate pursuant to Rule 920
	HY2016 S\$'000	HY2016 S\$'000
Low See Ching (Director and controlling shareholder): Joint venture with Hafary Pte Ltd for purpose of purchasing a freehold property.	2,066	-
Purchases of goods:		
MML Marketing Pte Ltd	481	516
Malaysian Mosaics Sdn Bhd	394	225

The Group has obtained a general mandate from shareholders of the Company for interested person transactions in the Extraordinary General Meeting held on 11 April 2016.

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

We, Low Kok Ann and Low See Ching, being Directors of the Company, do hereby confirm, on behalf of the Board of Directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the interim financial statements for 2Q2016 and HY2016 to be false or misleading in any material aspect.

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

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

BY ORDER OF THE BOARD

Low Kok Ann
Executive Director and Chief Executive Officer

4 August 2016