Mercatus

ANNUAL REPORT 2018

POSITIONING FOR GROWTH

CONTENTS

ABOUT MERCATUS CO-OPERATIVE LIMITED

Mercatus Co-operative Limited is the real estate subsidiary of NTUC Enterprise Co-operative Limited. Mercatus' vision is to own and manage a portfolio of commercial properties to provide NTUC social enterprises with access to commercial space and generate sustainable, long-term returns for the Labour Movement. Mercatus' current portfolio comprises 5 strategically located retail and office properties, and 37 strata assets in Housing Development Board estates and shopping malls with a combined valuation of $5.3 billion as at 31 December 2018.

AMK Hub, a conveniently located shopping mall in the heart of Ang Mo Kio town centre.

Jurong Point, the largest regional shopping mall in the west of Singapore.

NEX, the biggest mall in the North-East region of Singapore.

Thomson Plaza, a retail mall located in Upper Thomson with a rich community heritage.

37 retail strata assets in HDB estates and shopping malls island-wide.

One Marina Boulevard, a premium Grade A office building located in Singapore's Central Business District.

HISTORICAL MILESTONES

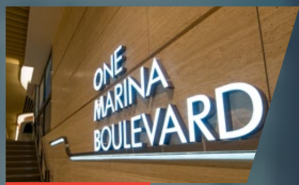
2011

May 2011:
Registered in Singapore under the Co-operative Societies Act

November 2011:
Acquired first property – AMK Hub

2012

July 2012:
Acquired 50% interest in NEX



2016

July 2016:
Acquired One Marina Boulevard

July 2016:
Acquired strata ownership in Thomson Plaza

2017

January 2017:
Acquired strata properties in HDB estates and shopping malls

June 2017:
Completed acquisition of Jurong Point

December 2017:
Acquired a strata lot at Thomson Plaza

2018

January 2018:
Completed acquisition of 69.6% of NTUC Choice Homes from NTUC Enterprise and NTUC FairPrice

2019

March 2019:
Appointed as investment manager of NTUC Income real estate portfolio

Mercatus will continue to seek to invest in, develop and manage a diversified, well-located portfolio of commercial real estate in Singapore. As part of its growth and diversification strategy, Mercatus will explore overseas opportunities and various platforms to raise capital.

1 REAL ESTATE INVESTMENT MANAGEMENT

- Focus on strategically located high quality assets with good connectivity - shopping malls in high density suburban areas and office buildings in the downtown core of Singapore.
- Develop strategic partnerships to diversify income sources and expand footprint both in Singapore as well as developed markets gateway cities.

2 CAPITAL MANAGEMENT

- Employ a proactive and prudent capital management framework.
- Maintain flexibility in respect of funding for future capital expenditures and acquisitions.
- Establish platform to manage capital from investors.

3 ASSET AND PROPERTY MANAGEMENT

- Value creation through asset enhancement initiatives to improve the relevance and attractiveness of malls to tenants and shoppers.
- Adopt proactive approach to leasing and tenant management to maximize occupancy and achieving stable rental returns.
- Optimise and constantly refresh tenant mix for both retail and office portfolio.

MS. MAY NG
Chairman, Mercatus
Co-operative Limited

Dear Members,

On behalf of the Board of Directors, I am pleased to present Mercatus' Annual Report for the year ended 31 December 2018.

RESILIENT PORTFOLIO

Macro-economic uncertainties, increased disruptions to the retail sector and structural changes in the labour market made 2018 a very challenging year for many businesses in Singapore. Despite these tough operating conditions, Mercatus' real estate portfolio proved resilient and continued to deliver positive returns, backed by asset enhancements, operational excellence and sound financial management.

In 2018, Mercatus' total revenue increased to $268.4 million, up from $205.9 million in 2017, with a net surplus before contribution of $88.6 million, up from $82.1 million in 2017. In respect of the financial year ended 31 December 2018, the Board of Directors has proposed the issuance of 30 bonus shares per 1000 shares held, amounting to a total of $53.3 million, up from $50.8 million the year before.

VALUE CREATION THROUGH ACTIVE ASSET MANAGEMENT

Since its establishment in 2011, Mercatus has strived to create products and services that provide value to our customers. Following the completion of the enhancements to One Marina Boulevard, we commenced the rejuvenation and renovation works at AMK Hub in March last year. These asset enhancement works were fully completed in January 2019.

I am pleased to mention that the mall now offers 21 new food and beverage outlets, including the popular Malaysia Boleh. The mall also houses a refreshed NTUC FairPrice hypermart that features an integrated Unity store-in-store concept offering close to 5,600 beauty, health and wellness products, in addition to pharmacist counselling and telemedicine consultation services. The enhancement works added new vibrancy to the community and created a more contemporary and elegant lifestyle experience for shoppers. Thomson Plaza will be next in the pipeline to undergo asset enhancements in 2019.

Overall, the committed occupancy of the assets in the portfolio remained strong at 99.4%, with steady shopper traffic flow. Mercatus will continue to optimise and refresh the tenant mix for its retail portfolio.

COMMITMENT TO OPERATIONAL EXCELLENCE & SUSTAINABILITY

In our bid to build a more sustainable operating environment, we implemented several green initiatives in 2018. One of which was a waste management project where the Rotary Drum Refuse Storage System (J-DRUM) was introduced at AMK Hub, Jurong Point and NEX. J-DRUM is an advanced system that has prominent characteristics of refuse compaction, refuse volume reduction, labour saving and space saving. AMK Hub also experimented with the ecoDigester system which biologically recycles solid food waste materials into clear reusable water.

During the year, several bulk procurement exercises were conducted for maintenance services, resulting in commendable savings for the organisation. Mercatus is also committed to a green and performance based procurement policy. Mercatus will continue its efforts in optimising operational efficiencies and furthering sustainable management.

EXPANDING ITS CAPABILITIES

Mercatus launched a digital loyalty programme, M Privileges, in May 2018. An improved version of the M Malls app is under way, where our shoppers can access vast digital services in the mall, such as digital mall vouchers, promotional gift redemptions, cashless payments and enrolment in lucky draws.

In March 2019, Mercatus took a significant step to broaden its business as it took on the investment management role for the real estate portfolio of NTUC Income, a related entity. This move expands Mercatus' assets under management by $3.5 billion to $8.8 billion and adds a dedicated investment team to the organisation's capabilities.

LOOKING AHEAD

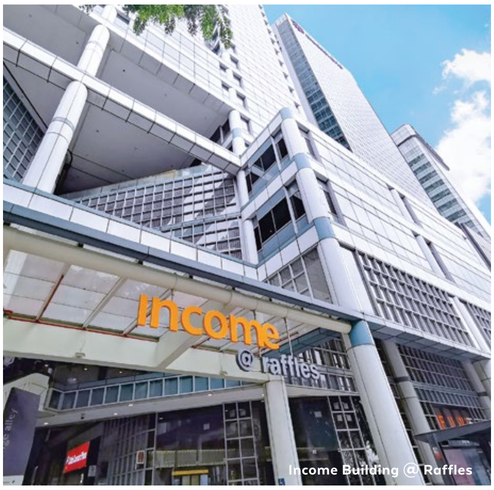
The Singapore economy grew by 3.2% in 2018, with the Ministry of Trade and Industry projecting that the economic growth in 2019 would moderate to slightly below the mid-range of 1.5% to 3.5%. 2019 is expected to be a challenging year for the retail industry as increased uncertainties and downside risks in the global economy may fuel a slowdown in the local economy, driving more cautious spending by consumers.

E-commerce will increase its hold on the consumers' wallet but brick-and-mortar retail is well and alive in providing the offline shopping experience and a place for social interactions. We firmly believe that the winning formula will be one that is based on putting customers first and constantly delighting shoppers with new experiences and unique innovations.

APPRECIATION

On behalf of the Board, I wish to extend my sincere gratitude to our members, shoppers, tenants, staff and business associates for their steadfast support of Mercatus. I would also like to express my deep appreciation to the management for their hard work and dedication in delivering high standards of service to our tenants and operational excellence.

I am very grateful to my fellow directors for their counsel and guidance in steering Mercatus forward. I look forward to seeing continued growth for Mercatus.



Income Building @ Raffles

Growth in Assets Under Management

Appointed as the investment manager of NTUC Income real estate portfolio increasing total asset under management to $8.8 billion.

Active Capital Management

Mercatus launched its second bond issuance of $150.0 million 10-year notes at 3.1% per annum on 19 January 2018 followed by a third bond issuance of $100.0 million 6-year notes at 3.28% per annum on 24 January 2019. Both issuances were oversubscribed reflecting investors' confidence on Mercatus' performance and credit standing.


AMK Hub

Consumers and Tenants at The Forefront of Our Initiatives

Asset Enhancement Initiatives at AMK Hub

The completed rejuvenation works at AMK Hub had improved the accessibility and enhanced shoppers' experience. This initiative also optimised space for a wider range of food & beverages concepts and event venues.

Home Fix, DIY Workshop at Thomson Plaza

Leveraging on our core strength, Thomson Plaza focused on new initiatives such as workshops. Home Fix Workshop was hosted in 2018 to promote the practice of DIY home improvements among consumers. Such initiative promotes art and empowers the consumer with the knowledge and concept of "do it yourself".

AMK Hub

Crafting Shopper Experiences and Interest

Market on Wheels Event organised at AMK Hub

During the year, AMK Hub brought Market on Wheels, a concept which was only available in central Singapore, to its premises. The event which took place from 3 August to 9 September 2018 brought the community together to spend meaningful time while shopping and dining.

In conjunction with the nation's birthday, AMK Hub localised the concept of Market on Wheels to a "Singapulah" version by featuring locally popular food concepts such as Cereal Citizen and AbraCowDaBra. The event also included live outdoor performances by local artistes.

TaiGai and Go-Ang Pratunam Chicken Rice opened their first outlet in Singapore at NEX, Serangoon

TaiGai is the original creator behind the "Fruity Milky Kiss", fruit-blended milk cheese crowns. Established in Shenzhen, TaiGai is a popular tea speciality brand in China with over 60 stores across the country.

Go-Ang Pratunam Chicken Rice was established in 1960 as a food stall specializing in Hainanese chicken rice in the Pratunam district of Bangkok and quickly gained popularity among locals. In 2018, the popular eatery was awarded a prestigious Michelin Bib Gourmand Award in the inaugural Bangkok edition of Michelin Guide.

Celebrating Occasions as One, providing Experiences and Excitement

A Pokémon themed Christmas in AMK Hub, Jurong Point and Thomson Plaza

In 2018, three of the malls within the Mercatus portfolio – AMK Hub, Jurong Point and Thomson Plaza came together to host a Pokémon themed Christmas in the heartlands. A globally popular game with highly recognised characters, Pokémon resonates with our shoppers across different age groups. Together with The Pokémon Company, Mercatus was the first to present the new Eevee and Pikachu dance in Singapore on top of an exciting line up of activities. The 41-day Christmas celebration drew great interest and crowd with dance performances, meet-and-greets, exclusive premiums for redemption and curated workshops for engagement.

AMK Hub

Jurong Point

Jurong Point

Contributing to Sustainability

Smart Toilet System and Bigbelly bins at Jurong Point

Jurong Point implemented smart toilet system and Bigbelly trash bins in October 2018. The initiative improves productivity while maintains high levels of customer satisfaction. The smart toilet system can track bathroom usage, occupancy and stock levels of restroom amenities to improve the washroom experience. The smart trash bin has a capacity of 600 liters which is 7 times effective capacity of ordinary bin and it reduces garbage collection from 12 times to 2 times per day. The implementation of both systems provide more efficient deployment of resources which resulted in improved productivity.

Grease Interceptor - Trapzilla System

Jurong Point installed Trapzilla Compact, a super-capacity grease interceptor which collects and separate free-floating grease and oils contained in kitchen drain water flows. Trapzilla holds up to 250% more grease retention capacity than conventional grease traps.

Rotary Drum Refuse Storage System (J-DRUM)

AMK Hub, Jurong Point and NEX installed J-DRUM, an advanced system to store and compact refuse generated from the building hygienically and safely.

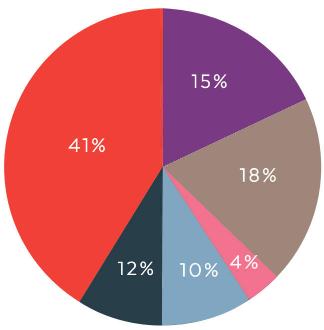
Jurong Point

FINANCIAL HIGHLIGHTS

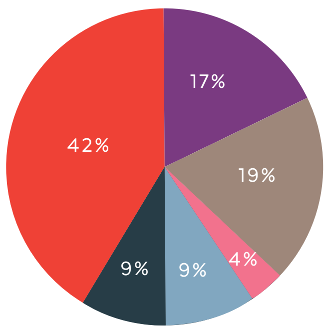
$268.4M
TOTAL REVENUE

$88.6M
NET SURPLUS BEFORE CONTRIBUTIONS

53.6%
LEVERAGE RATIO[1]



Contribution by valuation[2]
(as at 31 December 2018)



Contribution by total revenue[2]
(FY2018)

- Jurong Point
- AMK Hub
- NEX
- Thomson Plaza
- Retail Strata Assets
- One Marina Boulevard

Notes:

(1) Includes Mercatus' proportionate share of its joint venture borrowings

(2) Reflects 50% share of NEX's valuation and total revenue. NEX's financial results are accounted for as "share of results of joint venture" in the Group's financial statements.

TOP 10 TENANTS CONTRIBUTION

(FOR THE MONTH OF DECEMBER 2018)

26.8%
GROSS RENT

43.0%
GROUP NLA

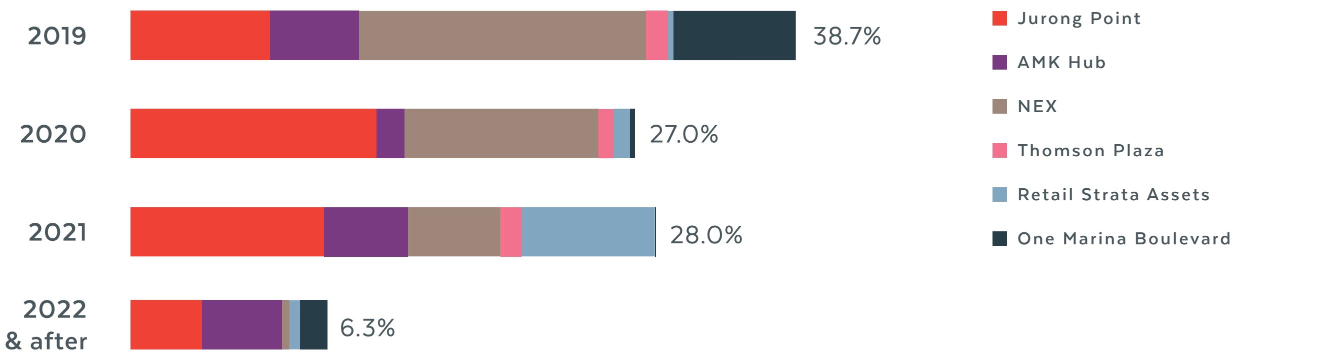
- NTUC Fairprice Co-operative Ltd
- Microsoft Operations Pte Ltd
- Allen & Gledhill LLP
- R E & S Enterprises Pte Ltd
- Workforce Singapore Agency

- Isetan (Singapore) Limited
- Cold Storage Singapore (1983) Pte Ltd
- NTUC Foodfare Co-operative Ltd
- NTUC Club
- BHG (Singapore) Pte. Ltd.

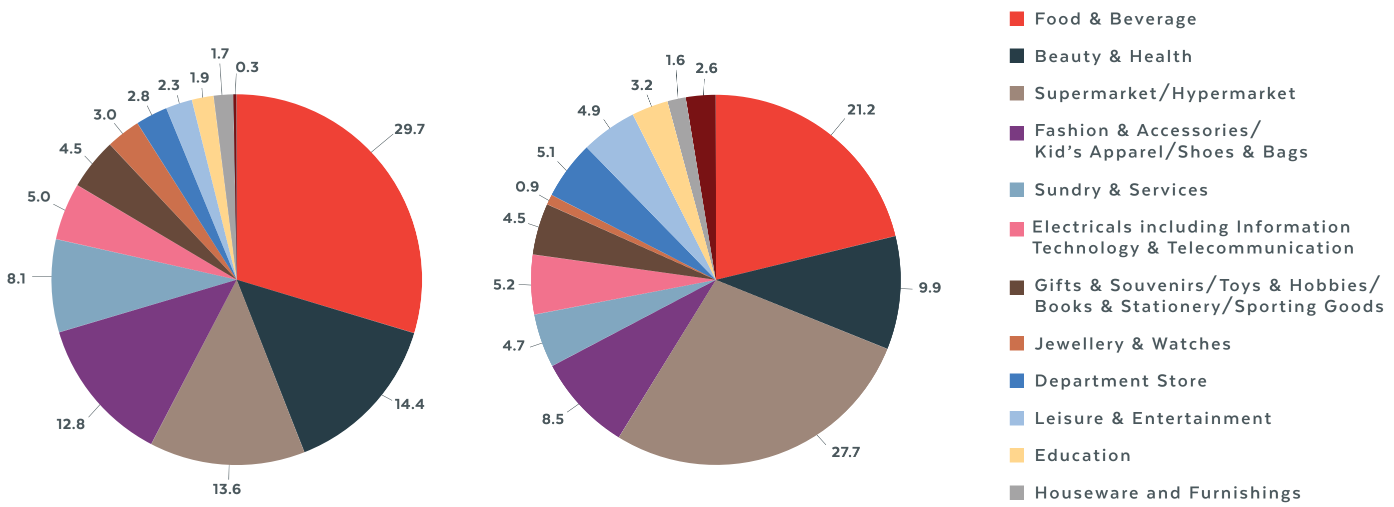
99.4%
COMMITTED OCCUPANCY RATE AS AT 31 DEC 2018

154.7M
SHOPPER TRAFFIC

LEASE EXPIRY PROFILE



RETAIL TRADE CATEGORIES



Gross Rent (%)

NLA (%)

SOCIAL IMPACT

Playing an Active Role in Community Support and Engagement

Mercatus' retail malls are conveniently located in the heartlands and enjoy healthy shopper traffic, which are well positioned to support social causes. This is in line with the role of retail malls being the curator and platform to provide meaningful engagements and create social impact. During the year, Mercatus supported numerous events for non-profit, community and charitable organisations. As part of supporting the wider Labour Movement in creating social impact, Mercatus continues to support NTUC U-Care Fund with a donation of $400,000.

AMK Hub: Adoption Drive

March 2018

The first adoption drive of Catopia in collaboration with the Cat Welfare Society. The objective of the drive is to promote animal welfare and prevent animal cruelty.

NEX: Salvation Army Donation Drive

April 2018

Over 4,500 pre-loved clothes collected with the purpose of recycling pre-loved clothing while helping those in need.

AMK Hub: Venue Sponsorship for Thye Hua Kwan Moral Society

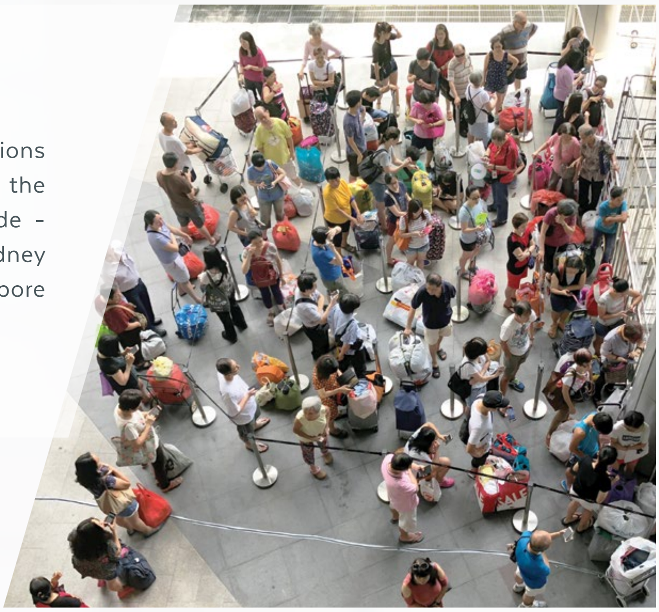
June 2018

Thye Hua Kwan Moral Society launched "The Paddy Project - where every grain matters" where we recruited the youth volunteers to help distribute rice sacks door-to-door, through a roving concept truck.

The objective of this campaign is to help the needy in Singapore – the residents and elderly living mainly in one-room flats by distributing sacks of rice to them and to empower the youths and through this meaningful campaign, we want to relay a message that besides donating money to do charities, they could also give their time by volunteering.

NEX: Venue Sponsorship for Charity Organisations

NEX supported numerous charity organisations for their donation drives to raise funds for the community. The charity organisations include - Thye Hwa Guan, Fostering Boys Town, Kidney Dialysis Foundation, World Vision, Singapore Heart Foundation and Lions Befrienders.



Jurong Point: Venue Sponsorship for Charity Organisations

Jurong Point supported numerous charity organisations for their donation drives to raise funds for the community. The charity organisations include - AIN Society, REACH, Lion Befrienders Service Association and Lions Home for the Elders.

MS MAY NG
Chairman

Ms Ng is the CEO of Pan-United Corporation Ltd. She is also a Director of NTUC Enterprise Co-operative Limited. Ms Ng was conferred the Meritorious Service Award in 2014 by NTUC for her continuous support, dedication and significant contribution to the Labour Movement.

MR WONG HENG TEW
Director

Mr Wong is currently an Advisory Director in Temasek International Advisors. He is also a board member in Heliconia Capital Management and Azalea Asset Management. Mr Wong was conferred the Friend of Labour Award in 2014 by NTUC for his continuous support, dedication and significant contribution to the Labour Movement.

MR WILLY SHEE
Director

Mr Shee is the Senior Advisor of CBRE Pte Ltd. He is also a Director of Bund Center Investments Ltd, Keppel Land Ltd, Sinarmas Land Ltd and Ascendas Hospitality Trust.

MR SOONG HEE SANG
Director

Mr Soong is currently an Independent Non-Executive Director of Keppel-KBS US REIT Management Pte Ltd. Prior to this, Mr Soong was with GIC Real Estate for 9 years and his last appointment was Managing Director, GIC Real Estate, London. Prior to that, he was with CapitaLand for 9 years where he held appointments as Country Director and Managing Director, London; Deputy CEO of CapitaLand Commercial and CEO (New Markets) of CapitaLand Residential.

MR NG ENG KIONG
Director

Mr Ng is the Senior Director of Squire Mech Pte Ltd. He is also the Honorary Advisor of the Singapore Green Building Council. He has been recognised as a BCA Certified Construction Productivity Professional (Honorary).

MR YEO CHUN FING

Director

Mr Yeo has more than 30 years' experience in the Labour Movement including serving as the Assistant Secretary for Financial Affairs in NTUC. He is currently Advisor to the Amalgamated Union of Public Employees (AUPE), Chairman of AUPE Credit Co-operative Limited and Second Deputy Chairman of Singapore National Co-operative Federation (SNCF).

MR TAN KIAN HUAY

Director

Mr Tan has over 40 years of experience in the building and construction industry, including serving as the Managing Director of Obayashi Singapore Pte. Ltd. from 1989 to 2004. He is currently a fellow and was a former 2nd Vice President of the Society of Project Managers.

MR LIM KOK GUAN

Director

Mr Lim is the Managing Director/Head of Integrated Infrastructure and Support of NTUC FairPrice Co-operative Limited. He has a concurrent role in Kopitiam Investment Pte Ltd ("Kopitiam") as Deputy Chief Executive Officer. He is also a Director of Kopitiam's group of companies, NTUC Choice Homes Co-operative Limited and a number of Mercatus subsidiaries.

MS ADELINE SUM

Director

Ms Sum is the Chief Executive Officer of Singapore Labour Foundation and Deputy CEO of NTUC Enterprise Co-operative Limited. She also holds directorships in ComfortDelgro Corporation Limited and NTUC Health Co-operative Limited.

AUDIT & RISK COMMITTEE

Wong Heng Tew (Chairman)
Ng Eng Kiong
Yeo Chun Fing

INVESTMENT COMMITTEE

May Ng (Chairman)
Lim Kok Guan
Soong Hee Sang
Adeline Sum (with effect from 2 Jan 2019)

ESTABLISHMENT COMMITTEE

May Ng (Chairman)
Adeline Sum
Willy Shee

CUSTOMER EXPERIENCE COMMITTEE

Willy Shee (Chairman)
Lim Kok Guan

MR DAVID POH
Chief Executive Officer

Mr Poh is appointed as Chief Executive Officer of Mercatus in 2017. He leads the senior leadership team in Mercatus to achieve its long term and sustainable growth objectives. Prior to the appointment, Mr Poh served on the Mercatus Board and played a key role in the setup of Mercatus since 2011, including the consolidation of various properties within the Labour Movement and the landmark acquisition of Jurong Point in 2017. Mr Poh also holds the appointment as the Deputy CEO and CFO in Singapore Labour Foundation and sits on several boards including Mercatus and SLF.

MS TAN SER JOO
Managing Director, Commercial

Ms Tan is the Managing Director, Commercial. She oversees the group asset strategy and has responsibility in the growth and performance of the retail and office portfolio. Ms Tan has over 25 years of real estate experience including property investment, asset management, property development, property management, leasing, marketing and property taxation and valuation. Having worked in Singapore and China, Ms Tan has held various senior positions including CEO of APM Property Management Pte Ltd, Executive director and Head of Investment & Asset Management of the trustee-manager of Perennial China Retail Trust and the Senior Vice President, Investment & Asset Management of Perennial Real Estate Pte Ltd. Prior to that, she was the Head of Investment & Asset Management and Senior Vice President of CapitaMalls Asia Limited and the Investment Manager of CapitaMall Trust Management Limited.

MS LOKE HUEY TENG
Managing Director, Finance & Strategic Development / Chief Financial Officer

Ms Loke is the Managing Director, Finance & Strategic Development and the Chief Financial Officer. She has responsibility for the strategic planning, managing and running of core corporate functions, including financial reporting, treasury, risk management, legal and compliance. Ms Loke has over 20 years of experience in business development, investment, capital markets, corporate finance and accounting. Before Mercatus, Huey Teng was the Chief Financial Officer of Mapletree Commercial Trust Management. She had served in different roles within the Mapletree Group since she joined in May 2004 and was responsible for the public listing of 2 other Mapletree REITs. Prior to Mapletree, Huey Teng was with the PSA Corporation and was involved in international business development.

MR RAJAT MITTAL
Managing Director, Digital & Technology

Mr Mittal is the Managing Director, Digital & Technology. He is responsible in leading the organisation's technological development and digital strategy. Mr Mittal has 18 years of experience in delivering digital outcomes for organisations, across advanced markets and fast growing economies, including his previous role as the Digital Transformation Director with Cisco Systems. In the eight years with Cisco, he has worked with government bodies, infrastructure operators, and real estate companies in developing models and solutions for smart buildings, smart cities, Internet-of-Things and industry ecosystem. Prior to Cisco Systems, Rajat led the business transformation and business development in Wipro Consulting for 11 years.

MR TEO YUNG FUNG

Managing Director, Investment

Mr Teo is the Managing Director, Investment. He is responsible in overseeing the investment function and managing the performance and growth of the investment portfolio. Mr Teo has more than 20 years of investment experience and was with NTUC Income in the last ten years overseeing the private equity and real estate investment portfolios. He led the respective investment teams in executing and managing various investment strategies, including setting up NTUC Income's overseas real estate investment fund program and evaluating new alternative investment asset classes. Prior to joining NTUC Income, he was with Temasek Holdings with responsibilities in private equity fund investments. He also spent ten years in Rothschild Group raising and managing various private equity investment funds. Yung Fung started his career with KPMG providing audit, corporate finance and advisory services. He is a CFA charterholder.

MS SYNNETTE NG

Director, Human Resources

Ms Ng is the Director, Human Resources. She is responsible for human capital management and leadership development for the workforce. Ms Ng has over 15 years of HR experience in talent management, change leadership, organisation effectiveness, leadership development, and workforce engagement. Prior to Mercatus, Ms Ng was on the Asia Pacific leadership team of Diageo Global Travel Retail and led the HR strategies for both Asia commercial teams and global functions. In FedEx Express, she was the business partner to Singapore, Malaysia, and Indonesia markets. She has also held the position of the Asia Pacific Senior Industrial Psychologist in FedEx Express where she was responsible for the development and delivery of organisational development outcomes.

MS ELLINA CHIA

Director, Asset Management

Ms Chia is the Director, Asset Management. She is responsible for retail asset performance and oversees the portfolio marketing and portfolio leasing functions. Ms Chia has accumulated 22 years of real estate experience, in lease administration, investment and asset management. Prior to joining Mercatus, Ellina was the Vice President of Asset Management with CapitaLand where she was responsible for overall asset performance and notably developed the One-North Star Vista project. During her tenure with CapitaLand, she held various positions including planning and reporting of REIT and non-REIT Singapore assets. She was also seconded to Lendlease Japan for 18 months to work on the acquisition of non-performing loans.

	NLA (SF)	LEASE TENURE (YEARS)	APPRAISED VALUE (M)	OWNERSHIP	NO. OF TENANTS	TOTAL REVENUE FY2018 (M)
AMK HUB	310,000	99 (FROM 24 AUGUST 2004)	$822.0	100%	210	$56.8
JURONG POINT	720,000	94 (JP1 - FROM 16 FEBRUARY 1998) 99 (JP2 - FROM 21 JUNE 2006)	$2,149.5	100% (OF STRATA SPACE OWNED)	393	$138.1
NEX	630,000	99 (FROM 26 JUNE 2008)	$948.0 (50%)	50%	337	$62.6
THOMSON PLAZA	110,000	99 (FROM 15 OCTOBER 1976)	$207.0	100% (OF STRATA SPACE OWNED)	75	$12.4
RETAIL STRATA ASSETS	380,000	RANGE FROM 30-99 EXCEPT CORONATION PLAZA (FREEHOLD)	$511.2	100% (OF STRATA SPACE OWNED)	MORE THAN 37 TENANTS	$30.1
ONE MARINA BOULEVARD	430,000	99 (FROM 1 JULY 2002)	$650.0	100%	15	$31.0

AMK HUB



AMK Hub is a suburban shopping mall located in Ang Mo Kio, within the North-East Region of Singapore, at the intersection of Ang Mo Kio Ave 3 and 8, connected to Ang Mo Kio Bus Interchange and linked to Ang Mo Kio MRT station via an underpass.

JURONG POINT


Jurong Point Shopping Centre is the largest regional shopping mall in the west of Singapore. It is directly connected to Boon Lay MRT station and the bus interchange.

NEX


Nex is the largest mall in North-East region of Singapore. It is connected to Serangoon MRT interchange of North East and Circle lines, and Serangoon Bus Interchange.

THOMSON PLAZA

Thomson Plaza is a suburban shopping mall located at Upper Thomson Road. It will be connected to Upper Thomson MRT station when Thomson – East Coast line becomes operational in 2020.

RETAIL STRATA ASSETS

The portfolio of strata assets comprises a mixture of retail strata units within shopping malls and HDB sites in various locations across Singapore. There is a total of 37 retail strata assets units.

ONE MARINA BOULEVARD

One Marina Boulevard, a premium Grade A office in the Central Business District of Singapore. It is located at the intersection of Marina Boulevard and Collyer Quay. It has a direct link to Raffles Place MRT station at East West line and Downtown MRT station at Downtown line via an air-conditioned underground mall/linkway.

FINANCIAL STATEMENTS

The Directors present this annual report to the members together with the audited financial statements of the Co-operative for the financial year ended 31 December 2018.

(a) the financial statements set out on pages 29 to 88 are drawn up in accordance with the provisions of the Co-operative Societies Act, Chapter 62 (the "Act") and Singapore Financial Reporting Standards, so as to give a true and fair view of the financial position of the Group and of the Co-operative as at 31 December 2018, and of the financial performance, changes in equity and cash flows of the Group and of the results and changes in equity of the Co-operative for the year ended 31 December 2018;

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

(c) the receipt, expenditure and investment of monies, acquisition and disposal of assets made by the Co-operative during the year ended 31 December 2018 have been made in accordance with the By-Laws of the Co-operative and the provisions of the Act.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

(a) Directors

The Directors of the Co-operative in office at the date of this statement are as follows:

May Ng Bee Bee	Chairman
Wong Heng Tew	Director
Willy Shee Ping Yah	Director
Ng Eng Kiong	Director
Soong Hee Sang	Director
Tan Kian Huay	Executive Director
Yeo Chun Fing	Director
Lim Kok Guan	Director
Adeline Sum Wai Fun	Director

(b) Arrangements to enable Directors to acquire shares or debentures

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

(c) Directors' interests in shares or debentures

According to the register of shareholdings kept by the Co-operative, no Director who held office at the end of the financial year had interests in shares of the Co-operative, or of related corporations, either at the beginning of the financial year or at the end of the financial year.

(d) Share options

There were no share options granted by the Co-operative 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 Co-operative.

There were no unissued shares of the Co-operative under options as at the end of the financial year.

(e) Auditors

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

May Ng Bee Bee
Chairman

Wong Heng Tew
Director

Singapore
5 April 2019

Independent auditors' report

Members of the Co-operative
Mercatus Co-operative Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Mercatus Co-operative Limited ('the Co-operative') and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Co-operative as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and statement of comprehensive income and statement of changes in equity of the Co-operative for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 29 to 88.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position, statement of comprehensive income and statement of changes in equity of the Co-operative are properly drawn up in accordance with the provisions of the Co-operative Societies Act, Chapter 62 ('the Act') and Financial Reporting Standards in Singapore ('FRSs') so as to give a true and fair view of the state of affairs of the Group and the Co-operative as at 31 December 2018 and of the results, changes in equity and cash flows of the Group and of the results and changes in equity of the Co-operative 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 'Auditors' 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 *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.

Impairment assessment of investment properties ($3,889 million as at 31 December 2018) (Refer to Note 5 to the financial statements)	
The key audit matter	*How the matter was addressed in our audit*
The Group owns a portfolio of investment properties comprising retail and office units, constituting 78% of the total assets as at 31 December 2018. These properties are carried at cost less accumulated depreciation and impairment loss, and are subject to an annual review to assess whether or not they may be impaired. The Group engages external valuers to appraise the valuations of these properties, and uses such valuation reports to determine whether the properties are at risk of being impaired i.e. an indication of impairment is noted when the external valuation of the property is lower than the property's carrying amount. The properties at risk are then subject to a detailed impairment review whereby their recoverable amounts are estimated. The Group uses a combination of internal and external valuations in estimating the recoverable amount of its properties, which is determined to be the higher of the fair value less costs to sell and value-in-use of these properties. The fair values of the properties are determined based on the independent professional valuations undertaken using the direct comparison method, capitalisation approach and discounted cash flow approach, whereas the value-in-use estimates of the properties are derived from discounted cash flow forecasts prepared by management. The estimation of the recoverable amount of the properties involves the determination of valuation methodologies, and the use of estimates and assumptions. Changes to the estimates and assumptions may have a significant impact to the recoverable amounts.	Where independent professional valuers are engaged to appraise the valuations of the Group's properties, we have assessed the appropriateness of the valuation methodologies and accompanying assumptions used by the valuers, taking into consideration available industry data and prevailing market conditions. For properties with indicators of impairment noted, we evaluated the methodologies and assumptions applied in the estimation of the properties' recoverable amount. These include comparing the key assumptions supporting management's value-in-use calculations, particularly the forecasted cash flows, discount rates, terminal growth rates, and average revenue growth to available market data. Findings: We found that the methodologies used by the external valuers were consistent with market practices and the assumptions applied were comparable to market data. The key assumptions supporting management's value-in-use calculations were also in line with the historical trends achieved on the properties, the Group's plans for the properties and available market data.

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report.

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

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

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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 controls.

- Obtain an understanding of internal controls 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 controls.

- 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 controls 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 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 auditors' report unless the law or regulations preclude 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

Opinion

In our opinion:

(a) the accounting and other records of those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the Singapore Companies Act, Chapter 50;

(b) the receipt, expenditure and investment of moneys and the acquisition and disposal of assets by the Co-operative during the year are, in all material respects, in accordance with the By-laws of the Co-operative and the provisions of the Act; and

(c) proper accounting and other records have been kept by the Co-operative.

Basis for opinion

We conducted our audit in accordance with SSAs. Our responsibilities under those standards are further described in the *'Auditors' responsibilities for the compliance audit'* section of our report. We are independent of the Group in accordance with the 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 on management's compliance.

Management's responsibility for compliance with legal and regulatory requirements

Management is responsible for ensuring that the receipt, expenditure, investment of moneys and the acquisition and disposal of assets, are in accordance with the By-laws of the Co-operative and the provisions of the Act. This responsibility includes implementing accounting and internal controls as management determines are necessary to enable compliance with the By-laws of the Co-operative and the provisions of the Act.

Auditors' responsibility for the compliance audit

Our responsibility is to express an opinion on management's compliance based on our audit of the financial statements. We planned and performed the compliance audit to obtain reasonable assurance about whether the receipt, expenditure, investment of moneys and the acquisition and disposal of assets, are in accordance with the By-laws of the Co-operative and the provisions of the Act.

Our compliance audit includes obtaining an understanding of the internal control relevant to the receipt, expenditure, investment of moneys and the acquisition and disposal of assets; and assessing the risks of material misstatement of the financial statements from non-compliance, if any, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Because of the inherent limitations in any accounting and internal control system, non-compliances may nevertheless occur and not be detected.

The engagement partner on the audit resulting in this independent auditors' report is Lo Mun Wai.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
5 April 2019

	Note	Group 2018 $'000	Group 2017 $'000	Co-operative 2018 $'000	Co-operative 2017 $'000
Non-current assets					
Property, plant and equipment	4	3,108	3,543	338	419
Investment properties	5	3,889,020	3,970,316	–	–
Investment in subsidiaries	6	–	–	751,554	692,933
Investment in an associate	7	–	2,234	–	–
Investment in a joint venture	8	353,836	362,912	–	–
Other investments	9	195,000	260,000	–	–
		4,440,964	4,599,005	751,892	693,352
Current assets					
Other investments	9	260,000	195,000	–	–
Trade and other receivables	10	13,424	17,210	3,862,822	3,919,278
Cash and cash equivalents	11	216,484	156,941	170,960	68,747
		489,908	369,151	4,033,782	3,988,025
Assets held for sale	12	47,491	–	–	–
		537,399	369,151	4,033,782	3,988,025
Total assets		4,978,363	4,968,156	4,785,674	4,681,377
Non-current liabilities					
Rental deposits		38,210	31,107	–	–
Loans and borrowings	13	1,974,844	2,333,000	1,974,844	2,158,000
Trade and other payables, including derivatives	14	3,327	1,287	1,875	38
		2,016,381	2,365,394	1,976,719	2,158,038
Current liabilities					
Rental deposits		14,807	19,573	–	–
Loans and borrowings	13	454,970	175,000	279,970	–
Trade and other payables	14	65,135	50,000	280,891	390,993
		534,912	244,573	560,861	390,993
Total liabilities		2,551,293	2,609,967	2,537,580	2,549,031
Net assets		2,427,070	2,358,189	2,248,094	2,132,346
Equity					
Membership shares	15	1,803,627	1,713,857	1,803,627	1,713,857
Accumulated profits		81,613	52,429	61,521	53,388
Other reserves	16	398,268	390,218	382,946	365,101
Equity attributable to members of the Co-operative		2,283,508	2,156,504	2,248,094	2,132,346
Non-controlling interests	6	143,562	201,685	–	–
Total equity		2,427,070	2,358,189	2,248,094	2,132,346

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

	Note	Group 2018 $'000	Group 2017 $'000	Co-operative 2018 $'000	Co-operative 2017 $'000
Revenue	17	255,238	193,473	–	222
Other income	18	13,176	12,415	27,697	16,848
Depreciation expense		(63,688)	(48,282)	(253)	(229)
Property tax		(22,434)	(16,699)	–	(33)
Staff costs		(19,878)	(11,606)	(6,097)	(2,384)
Maintenance fee expense		(13,865)	(7,438)	–	–
Other expenses		(27,022)	(27,330)	(5,028)	(7,429)
Finance income	20	9,821	420	113,446	107,784
Finance costs	20	(61,880)	(32,063)	(56,037)	(22,665)
Share of results of joint venture		19,024	19,226	–	–
Share of results of associate		104	–	–	–
Profit before tax and contributions	19	88,596	82,116	73,728	92,114
Tax expense	21	(9)	(2)	–	–
Profit before contributions		88,587	82,114	73,728	92,114
Contributions to:					
- Central Co-operative Fund	22	(115)	(50)	(25)	(25)
- Singapore Labour Foundation	22	(16,060)	(19,648)	(14,739)	(18,323)
Profit for the year		72,412	62,416	58,964	73,766
Other comprehensive income					
Item that are or may be reclassified subsequently to profit or loss:					
Effective portion of changes in fair value of cash flow hedge		(1,837)	(38)	(1,837)	(38)
Total comprehensive income for the year		70,575	62,378	57,127	73,728
Profit attributable to:					
Members of the Co-operative		71,177	62,416	58,964	73,766
Non-controlling interests		1,235	–	–	–
		72,412	62,416	58,964	73,766
Total comprehensive income attributable to:					
Members of the Co-operative		69,340	62,378	57,127	73,728
Non-controlling interests	6	1,235	–	–	–
Total comprehensive income for the year		70,575	62,378	57,127	73,728

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

	Note	Attributable to members of the Co-operative							
		Membership shares $'000	Accumulated profits $'000	Capital reserve $'000	Asset replacement reserve $'000	Hedging reserve $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Group									
At 1 January 2017		640,393	4,978	176,433	8,752	–	830,556	–	830,556
Total comprehensive income for the year									
Profit for the year		–	62,416	–	–	–	62,416	–	62,416
Other comprehensive income									
Effective portion of changes in fair value of cashflow hedge		–	–	–	–	(38)	(38)	–	(38)
Total other comprehensive income		–	–	–	–	(38)	(38)	–	(38)
Total comprehensive income for the year		–	62,416	–	–	(38)	62,378	–	62,378
Transactions with members, recognised directly in equity									
Contributions by and distributions to members									
Capitalisation of loans from shareholders	15	562,188	–	–	–	–	562,188	–	562,188
Transfers	16	–	(14,965)	–	14,965	–	–	–	–
Total contributions by and distributions to members		562,188	(14,965)	–	14,965	–	562,188	–	562,188
Change in ownership interest in subsidiaries									
Acquisition of subsidiary with non-controlling interests	15	173,999	–	89,346	–	–	263,345	201,685	465,030
Other transaction									
Acquisition of investment properties	15	337,277	–	100,760	–	–	438,037	–	438,037
Total transactions with members		1,073,464	(14,965)	190,106	14,965	–	1,263,570	201,685	1,465,255
At 31 December 2017		1,713,857	52,429	366,539	23,717	(38)	2,156,504	201,685	2,358,189

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

	Note	Membership shares $'000	Accumulated profits $'000	Capital reserve $'000	Asset replacement reserve $'000	Hedging reserve $'000	Dividend reserve $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
		Attributable to members of the Co-operative								
Group										
At 1 January 2018		1,713,857	52,429	366,539	23,717	(38)	–	2,156,504	201,685	2,358,189
Total comprehensive income for the year										
Profit for the year		–	71,177	–	–	–	–	71,177	1,235	72,412
Other comprehensive income										
Effective portion of changes in fair value of cash flow hedge		–	–	–	–	(1,837)	–	(1,837)	–	(1,837)
Total other comprehensive income		–	–	–	–	(1,837)	–	(1,837)	–	(1,837)
Total comprehensive income for the year		–	71,177	–	–	(1,837)	–	69,340	1,235	70,575
Transactions with members, recognised directly in equity										
Contributions by and distributions to members										
Issuance of bonus shares	15	50,831	(50,831)	–	–	–	–	–	–	–
Transfers	16	–	8,838	–	(12,765)	–	2,734	(1,193)	1,193	–
Dividends paid		–	–	–	–	–	–	–	(1,694)	(1,694)
Total contributions by and distributions to members		50,831	(41,993)	–	(12,765)	–	2,734	(1,193)	(501)	(1,694)
Change in ownership interest in subsidiaries										
Acquisition of non-controlling interests without a change in control	15	38,939	–	19,918	–	–	–	58,857	(58,857)	–
Total change in ownership interest in subsidiaries		38,939	–	19,918	–	–	–	58,857	(58,857)	–
Total transactions with members		89,770	(41,993)	19,918	(12,765)	–	2,734	57,664	(59,358)	(1,694)
At 31 December 2018		1,803,627	81,613	386,457	10,952	(1,875)	2,734	2,283,508	143,562	2,427,070

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

	Note	Membership shares $'000	Accumulated profits $'000	Capital reserve $'000	Asset replacement reserve $'000	Hedging reserve $'000	Total equity $'000
Co-operative							
At 1 January 2017		640,393	(21,918)	176,433	1,540	–	796,448
Total comprehensive income for the year							
Profit for the year		–	73,766	–	–	–	73,766
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedge		–	–	–	–	(38)	(38)
Total other comprehensive income		–	–	–	–	(38)	(38)
Total comprehensive income for the year		–	73,766	–	–	(38)	73,728
Transactions with members, recognised directly in equity							
Contributions by and distributions to members							
Capitalisation of loans from shareholders	15	562,188	–	–	–	–	562,188
Transfers	16	–	1,540	–	(1,540)	–	–
Total contributions by and distributions to members		562,188	1,540	–	(1,540)	–	562,188
Change in ownership interest in subsidiaries							
Acquisition of subsidiary with non-controlling interests	15	173,999	–	87,946	–	–	261,945
Other transaction							
Acquisition of investment properties	15	337,277	–	100,760	–	–	438,037
Total transactions with members		1,073,464	1,540	188,706	(1,540)	–	1,262,170
At 31 December 2017		1,713,857	53,388	365,139	–	(38)	2,132,346

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

Year ended 31 December 2018

	Note	Membership shares $'000	Accumulated profits $'000	Capital reserve $'000	Asset replacement reserve $'000	Hedging reserve $'000	Total equity $'000
Co-operative							
At 1 January 2018		1,713,857	53,388	365,139	–	(38)	2,132,346
Total comprehensive income for the year							
Profit for the year		–	58,964	–	–	–	58,964
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedge		–	–	–	–	(1,837)	(1,837)
Total other comprehensive income		–	–	–	–	(1,837)	(1,837)
Total comprehensive income for the year		–	58,964	–	–	(1,837)	57,127
Transactions with members, recognised directly in equity							
Contributions by and distributions to members							
Issuance of bonus shares	15	50,831	(50,831)	–	–	–	–
Total contributions by and distributions to members		50,831	(50,831)	–	–	–	–
Change in ownership interest in subsidiaries							
Acquisition of non-controlling interests without a change in control	15	38,939	–	19,682	–	–	58,621
Total change in ownership interest in subsidiaries		38,939	–	19,682	–	–	58,621
Total transactions with members		89,770	(50,831)	19,682	–	–	58,621
At 31 December 2018		1,803,627	61,521	384,821	–	(1,875)	2,248,094

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

	Note	Group 2018 $'000	Group 2017 $'000
Cash flows from operating activities			
Profit before tax and contributions		88,596	82,116
Adjustments for:			
Depreciation of property, plant and equipment	4	1,077	1,063
Depreciation of investment property	5	62,611	47,219
Loss on disposal of investment in an associate		2	–
Share of results of joint venture		(19,024)	(19,226)
Share of results of associate		(104)	–
Finance income		(9,821)	(420)
Finance costs		61,880	32,063
Operating cash flows before changes in working capital		185,217	142,815
Changes in working capital:			
Trade and other receivables		637	(9,375)
Trade and other payables and rental deposits		(9,210)	14,655
Cash generated from operating activities		176,644	148,095
Tax paid		(9)	(2)
Net cash flows from operating activities		176,635	148,093
Cash flows from investing activities			
Purchase of property, plant and equipment		(937)	(1,290)
Proceeds from disposal of property, plant and equipment		–	3
Grant received for property, plant and equipment		286	–
Interest received		9,343	420
Dividend received from joint venture		28,100	32,500
Dividend received from associate		40	–
Dividend paid to non-controlling interests		(1,694)	–
Acquisition of subsidiaries, net of cash acquired	6	–	5,238
Proceeds from disposal of investment in an associate		1,749	–
Purchase of investment properties		(17,780)	(2,254,240)
Net cash flows from/(used in) investing activities		19,107	(2,217,369)
Cash flows from financing activities			
Interest paid		(61,199)	(27,582)
Proceeds from loans and borrowings		150,000	2,158,000
Repayments of loans and borrowings		(225,000)	–
Net cash flows (used in)/from financing activities		(136,199)	2,130,418
Net increase in cash and cash equivalents		59,543	61,142
Cash and cash equivalents at beginning of the year		156,941	95,799
Cash and cash equivalents as at end of the year	11	216,484	156,941

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

Significant non-cash transactions

In 2018, there were the following significant non-cash transactions:

- 39 million membership shares were issued at the par value of $1 each as satisfaction of the consideration of $59 million payable on the acquisition of additional interest in a subsidiary, NTUC Choice Homes Co-operative Ltd ("NCH") (notes 6 and 15); and

- 51 million membership shares were issued under the bonus issue where 33 membership shares were issued for every 1,000 membership shares (note 15).

In 2017, there were the following significant non-cash transactions:

- 174 million membership shares were issued at the par value of $1 each as satisfaction of the consideration of $262 million payable on the acquisition of a subsidiary, NCH (notes 6 and 15);

- 337 million membership shares were issued at the par value of $1 each as satisfaction of the consideration of $438 million payable on the acquisition of investment properties from a related party; and

- 562 million membership shares were issued at the par value of $1 each arising from the capitalisation of loans from shareholders totalling $562 million (note 15).

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

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 5 April 2019.

1 Domicile and activities

Mercatus Co-operative Limited (the "Co-operative") is incorporated in Singapore and constituted under the Co-operative Societies Act (Chapter 62). The address of the Co-operative's registered office is No.1 Marina Boulevard, #15-07/08 One Marina Boulevard, Singapore 018989.

The Co-operative is a subsidiary of NTUC Enterprise Co-operative Limited ("NE"), which is also the holding co-operative.

The principal activity of the Co-operative is that of a property owner. The principal activities of the subsidiaries are set out in note 6 to the financial statements.

The financial statements of the Group as at and for the year ended 31 December 2018 comprise the Co-operative and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in a joint venture.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the provisions of the Co-operative Societies Act, Chapter 62 (the "Act") and Singapore Financial Reporting Standards ("FRSs").

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described below.

2.3 Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying transactions, events and conditions relevant to that entity (the "functional currency").

These financial statements are presented in Singapore Dollars, which is the Co-operative's functional currency. All financial information presented in Singapore Dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is described in note 5 – Impairment assessment of investment properties.

2.5 Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 5 Investment property
Note 24 Financial instruments

2.6 Changes in accounting policies

The Group has applied the various new FRSs and amendments to FRSs for the first time for the annual period beginning on 1 January 2018. The effect of adopting these requirements is set out in note 27 to these financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

The accounting policies have been applied consistently by Group entities.

3.1 Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method in accordance with FRS 103 *Business Combinations* as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

Over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date and included in the consideration transferred. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests ("NCI") that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. The measurement basis taken is elected on a transaction-by-transaction basis. All other non-controlling interests are measured at acquisition-date fair value, unless another measurement basis is required by FRSs.

Costs related to the acquisition, other than those associated with the issue of debt or equity investments, that the Group incurs in connection with a business combination are expensed as incurred.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. Adjustments to NCI arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and the other components of equity related to the subsidiary. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Investments in associate and joint venture

Associate is an entity in which of the Group has significant influence, but not control or joint control, over the financial and operating policies of the entity. Significant influence is presumed to exist when Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investment in an associate and a joint venture (also referred to as "equity accounted investee") are accounted for using the equity method and are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Accounting for subsidiaries, associate and joint venture by the Co-operative

Investments in subsidiaries, associate and joint venture are stated in the Co-operative's statement of financial position at cost less any accumulated impairment losses.

3.2 Property, plant and equipment

(i) Recognition and measurement

Construction work-in-progress are stated at cost less any accumulated impairment losses. Other items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset and includes the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, unless it is included in the carrying amount of another asset.

No depreciation is charged for construction work-in-progress. Depreciation on other property, plant and equipment is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years are as follows:

Furniture, fittings and equipment	3 to 8 years
Building improvements	3 to 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Disposals

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income or other expenses in profit or loss on the date of disposal.

3.3 Investment properties

Investment properties are held either to earn rental income or capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the investment properties. The cost of self-constructed investment properties includes the cost of materials and direct labour, and any other costs directly attributable to bringing the investment properties to a working condition for their intended use and capitalised borrowing costs.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives at each component of investment properties.

The estimated useful lives for the current and comparative years are as follows:

Leasehold land	over remaining period of the lease of 99 years
Leasehold buildings and premises	50 years
Freehold buildings and premises	50 years

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

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

3.4 Financial instruments – Policy applicable from 1 January 2018

(i) Recognition and initial measurement

Non-derivative financial assets and financial liabilities

Trade receivables and debt investments issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Non-derivative financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVOCI) – debt investment or FVOCI – equity investment or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt investments at FVOCI

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments at FVOCI

On initial recognition of an equity investment that is not held-for-trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Financial assets at FVTPL

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held-for-trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Non-derivative financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income (OCI). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Non-derivative financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

Other financial liabilities are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. These financial liabilities comprised loans and borrowings, bank overdrafts, and trade and other payables.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

(vi) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value and any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein recognised in profit or loss.

The Group designates certain derivative financial instruments as hedging instruments in qualifying hedging relationships. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Hedging relationships designated under FRS 39 *Financial Instruments: Recognition and Measurement* that were still existing as at 31 December 2017 are treated as continuing hedges and hedge documentations were aligned accordingly to the requirements of FRS 109 *Financial Instruments.*

Cash flow hedges

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in interest rates.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

3.5 Impairment of financial assets – Policy applicable from 1 January 2018

(i) Non-derivative financial assets

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset.

Simplified approach

The Group applies the simplified approach to provide for ECLs for all trade receivables. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

General approach

The Group applies the general approach to provide for ECLs on all other financial instruments. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of these assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Associates and joint venture

An impairment loss in respect of an associate or joint venture is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with the requirements for non-financial assets. An impairment loss is recognised in profit or loss. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

3.6 Financial instruments – Policy applicable before 1 January 2018

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: held-to-maturity financial assets and loans and receivables.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Held-to-maturity financial assets comprise debt securities.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise cash on hand, bank balances and fixed deposits that are readily convertible to a known amount of cash and are subject to an in significant risk of changes in their fair value.

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the group, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity financial assets are assessed for specific impairment. All individually significant receivables and held-to-maturity financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity financial assets that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity financial assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity financial assets. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Financial liabilities

Financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, trade and other payables and rental deposits.

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are initially measured at fair value; any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes there in are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the non-financial item affects profit or loss. In other cases as well, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

3.7 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

Calculation of recoverable amount

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a *pro rata* basis.

Reversals of impairment

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 Non-current assets held for sale

Non-current assets that are highly probable to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets classified as held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell.

3.9 Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3.10 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle 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 reporting 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.

3.11 Membership shares

Membership shares are classified as equity. Incremental costs directly attributable to the issue of membership shares are recognised as a deduction from equity.

3.12 Government grants

Government grants are recognised when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. For grants relating to acquisition of long-term assets, the grant received is off-set against the cost of the long-term assets and reduces future depreciation or amortisation expenses.

3.13 Revenue

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

3.14 Lease payments (when the entities within the Group are lessees of an operating lease)

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

3.15 Finance income and finance costs

Finance income comprises interest income on cash balances and investments in debt instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and amortisation of borrowing costs. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

3.16 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the year that such a determination is made.

3.17 New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these financial statements. Based on a preliminary assessment, the adoption of these new accounting standards and interpretations are not expected to have a material impact on the Group's financial statements.

4 Property, plant and equipment

	Furniture, fittings and equipment $'000	Building improvements $'000	Construction in progress $'000	Total $'000
Group				
Cost				
At 1 January 2017	2,951	2,600	4,757	10,308
Additions	1,487	176	184	1,847
Disposals/written-off	(5)	–	–	(5)
Reclassification to investment properties (see note 5)	–	–	(4,317)	(4,317)
Transfer	440	–	(440)	–
At 31 December 2017	4,873	2,776	184	7,833
Additions	584	68	276	928
Disposals/written-off	(1)	–	–	(1)
Government grant received	(286)	–	–	(286)
At 31 December 2018	5,170	2,844	460	8,474
Accumulated depreciation				
At 1 January 2017	2,268	961	–	3,229
Depreciation for the year	617	446	–	1,063
Disposals/written-off	(2)	–	–	(2)
At 31 December 2017	2,883	1,407	–	4,290
Depreciation for the year	694	383	–	1,077
Disposals/written-off	(1)	–	–	(1)
At 31 December 2018	3,576	1,790	–	5,366
Carrying amounts				
At 1 January 2017	683	1,639	4,757	7,079
At 31 December 2017	1,990	1,369	184	3,543
At 31 December 2018	1,594	1,054	460	3,108

	Furniture, fittings and equipment $'000	Building improvements $'000	Construction in progress $'000	Total $'000
Co-operative				
Cost				
At 1 January 2017	2,680	2,102	440	5,222
Additions	60	–	–	60
Transfer	440	–	(440)	–
Disposals	(2,446)	(2,102)	–	(4,548)
At 31 December 2017	734	–	–	734
Additions	171	–	–	171
Disposals	(1)	–	–	(1)
At 31 December 2018	904	–	–	904
Accumulated depreciation				
At 1 January 2017	2,241	826	–	3,067
Depreciation for the year	229	–	–	229
Disposals	(2,155)	(826)	–	(2,981)
At 31 December 2017	315	–	–	315
Depreciation for the year	252	–	–	252
Disposals	(1)	–	–	(1)
At 31 December 2018	566	–	–	566
Carrying amounts				
At 1 January 2017	439	1,276	440	2,155
At 31 December 2017	419	–	–	419
At 31 December 2018	338	–	–	338

5 Investment properties

	Leasehold land $'000	Leasehold buildings and premises $'000	Freehold buildings and premises $'000	Total $'000
Group				
Cost				
At 1 January 2017	722,184	651,238	–	1,373,422
Addition	1,952,448	719,972	19,300	2,691,720
Reclassification from property, plant and equipment (see note 4)	–	4,317	–	4,317
At 31 December 2017	2,674,632	1,375,527	19,300	4,069,459
Addition	–	28,806	–	28,806
Reclassification to assets held for sale (see note 12)	–	(49,470)	–	(49,470)
At 31 December 2018	2,674,632	1,354,863	19,300	4,048,795
Accumulated depreciation				
At 1 January 2017	25,441	26,483	–	51,924
Depreciation for the year	20,141	26,692	386	47,219
At 31 December 2017	45,582	53,175	386	99,143
Depreciation for the year	32,006	30,219	386	62,611
Reclassification to assets held for sale (see note 12)	–	(1,979)	–	(1,979)
At 31 December 2018	77,588	81,415	772	159,775
Carrying amounts				
At 1 January 2017	696,743	624,755	–	1,321,498
At 31 December 2017	2,629,050	1,322,352	18,914	3,970,316
At 31 December 2018	2,597,044	1,273,448	18,528	3,889,020

	Leasehold land $'000	Leasehold buildings and premises $'000	Freehold buildings and premises $'000	Total $'000
Co-operative				
Cost				
At 1 January 2017	424,000	184,594	–	608,594
Disposals	(424,000)	(184,594)	–	(608,594)
At 31 December 2017 and 2018	–	–	–	–
Accumulated depreciation				
At 1 January 2017	23,678	20,965	–	44,643
Disposals	(23,678)	(20,965)	–	(44,643)
At 31 December 2017 and 2018	–	–	–	–
Carrying amounts				
At 1 January 2017	400,322	163,629	–	563,951
At 31 December 2017 and 2018	–	–	–	–

Investment properties comprise a number of commercial properties that are leased to related parties and external customers. Each of the leases contains an initial non-cancellable period of between 1 to 5 years. Subsequent renewals are negotiated with the lessee. During the year, contingent rent of $6.8 million (2017: $4.6 million) was charged and recognised as rental income in profit or loss.

The following amounts relating to the investment properties are recognised in the statement of comprehensive income:

	Group		Co-operative	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Rental income	244,459	184,893	–	222
Operating expenses	127,368	54,777	–	–

Security

At 31 December 2018, investment properties of the Group with a carrying amount of $575 million (2017: $555 million) are pledged as security to secure bank loans (see note 13).

Impairment assessment

Management performed an annual review of the carrying amounts of investment properties for indicators of impairment. In 2018, an indicator of impairment was noted for one of the Group's investment properties. The recoverable amount of the investment property (determined to be the higher of fair value less costs to sell and value-in-use) was estimated using the value-in-use approach and was derived from discounted cash flow forecasts prepared by management. As at 31 December 2018, the recoverable amount of the investment property was determined to be higher than its carrying amount and no impairment of the property was required.

The same impairment assessment was performed on the investment property in 2017, with no impairment of the property required as at 31 December 2017.

Determination of fair value for disclosure

The Group adopts the cost model to measure the investment properties, and discloses their fair values. External and independent valuation companies, having appropriate recognised professional qualifications and recent experience in the locations and category of properties being valued, value the Group's investment properties.

The fair value of investment properties for the Group as at 31 December 2018 is $4,277 million (2017: $4,299 million). The valuations are carried out by Jones Lang LaSalle Property Consultants Pte Ltd and Savills Valuation and Professional Services (S) Pte Ltd (2017: Jones Lang LaSalle Property Consultants Pte Ltd and Savills Valuation and Professional Services (S) Pte Ltd), which are firms of independent professional valuers.

The valuers have considered valuation techniques including the direct comparison method, the capitalisation approach, and the discounted cash flow approach in arriving at the fair value as at the reporting date. The direct comparison method involves the analysis of comparable sales of similar properties and adjusting the sales prices to that reflective of the investment properties. The capitalisation approach capitalises an income stream into a present value using revenue multipliers or single-year capitalisation rates. The discounted cash flow approach involves the estimation and the projection of an income stream over a period and discounting the income stream with an approximate rate of return.

The valuation techniques involve certain estimates. The key assumptions used to determine the fair value of investment properties include price per square foot capitalisation yield, terminal yield, discount rate and average rental growth rate.

The fair values of the investment properties are categorised as Level 3 fair value.

6 Investment in subsidiaries

	Co-operative	
	2018 $'000	**2017 $'000**
Investment in subsidiaries	751,554	692,933

During the financial year ended 31 December 2018:

The Co-operative acquired additional shares in its subsidiary, NTUC Choice Homes Co-operative Ltd (“NCH”), from a non-controlling shareholder, NTUC Fairprice Co-operative Limited (“FP”) for a consideration of $59 million. The consideration was satisfied through the issuance of approximately 39 million shares to FP (note 15). As a result of the acquisition, the Co-operative’s effective equity interest in the subsidiary increased from 56.9% to 69.6%, while retaining control.

The share acquisition resulted in:

- an increase in capital reserve of the Group and Co-operative of $20 million; and
- a decrease in non-controlling interests of the Group of $59 million.

During the financial year ended 31 December 2017:

(a) The Co-operative incorporated two subsidiaries and increased its investments in certain subsidiaries by $319 million.

(a) The Co-operative acquired a subsidiary, NCH, from NE for a consideration of $262 million. The consideration was satisfied through the issuance of 174 million shares at par value of $1 each, to NE (note 15).

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	$’000
Investment in an associate	2,234
Other investments – unquoted bonds	455,000
Trade and other receivables	4,425
Cash and bank balances	5,238
Trade and other payables	(1,867)
Non-controlling interest	(201,685)
Group’s share of net assets acquired	263,345
Consideration	261,945
Less: Amount satisfied through issuance of shares (note 15)	(173,999)
Excess of fair value over the par value of shares issued	(87,946)
Add: Cash acquired	5,238
Net cash inflow arising from acquisition of subsidiary	5,238

Measurement of fair value

Material assets acquired	**Valuation technique**
Other investments – unquoted bonds	Discounted cash flows: The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.

The fair values of other investments are categorised as Level 3 fair value.

Details of the Co-operative's subsidiaries are as follows:

Name	Place of incorporation and business	Principal activities	Effective equity interest	
			2018 %	2017 %
Subsidiaries of the Co-operative				
Mercatus Holdings Pte. Ltd. (1)	Singapore	Investment holding	100	100
Mercatus Alpha Co-operative Limited (1)	Singapore	Property owner	100	100
Mercatus Beta Co-operative Limited (1)	Singapore	Property owner	100	100
Mercatus Delta Co-operative Limited (1)	Singapore	Property owner	100	100
Mercatus Gamma Co-operative Limited (1)	Singapore	Property owner	100	100
Mercatus Epsilon Co-operative Limited (1)	Singapore	Property owner	100	100
Mercatus Zeta Co-operative Limited (1)	Singapore	Dormant	50	50
NTUC Choice Homes Co-operative Ltd (1)	Singapore	Property development and investment holding	69.6	56.9
Subsidiary of Mercatus Beta Co-operative Limited				
Thomson Plaza Pte. Ltd. (2)	Singapore	Dormant	100	100
Subsidiary of Mercatus Epsilon Co-operative Limited				
SMCP Pte. Ltd. (1)	Singapore	Carpark management and operation services	100	100
Subsidiaries of Mercatus Holdings Pte. Ltd.				
ASPF II (Mauritius) Limited (3)	Mauritius	Dormant	–	100
Mercatus Uno Pte. Ltd. (2)	Singapore	Dormant	100	100
Mercatus Dos Pte. Ltd. (2)	Singapore	Dormant	100	100

Name	Place of incorporation and business	Principal activities	Effective equity interest	
			2018	2017
			%	%
Subsidiary of NTUC Choice Homes Co-operative Ltd				
ChoiceHomes Investments Pte. Ltd. [(1)]	Singapore	Investment holding and management and maintenance of properties	69.6	56.9
Subsidiaries of ChoiceHomes Investments Pte. Ltd.				
Punggol Field EC Pte. Ltd. [(1)(4)]	Singapore	Property development	41.8	34.1
Pasir Ris EC Pte. Ltd. [(1)(4)]	Singapore	Property development	41.8	34.1

(1) Audited by KPMG LLP Singapore

(2) Not required to be audited under the laws of country of incorporation

(3) The Company was liquidated during the year

(4) Although the Group owns less than 50% of Punggol Field EC Pte. Ltd. and Pasir Ris EC Pte. Ltd., management has determined that the Group has control through the Board of Directors of these entities.

Non-controlling interests

The following subsidiary has non-controlling interests (NCI) that are material to the Group.

Name	Country of incorporation	Ownership interests held by NCI	
		2018	2017
		%	%
NTUC Choice Homes Co-operative Limited ("NCH")	Singapore	30.4	43.1

The following summarised financial information for the above subsidiary is prepared in accordance with FRS and the Group's accounting policies.

	NTUC Choice Homes Co-operative Limited
Group	**$'000**
2018	
Profit, representing total comprehensive income	4,067
Attributable to NCI:	
-Profit, representing total comprehensive income	1,235

	NTUC Choice Homes Co-operative Limited $'000
Group	
2018	
Non-current assets	195,000
Current assets	274,386
Current liabilities	(1,982)
Net assets	467,404
Net assets attributable to NCI	143,562
2017	
Non-current assets	262,234
Current assets	204,663
Current liabilities	(4,025)
Net assets	462,872
Net assets attributable to NCI	201,685

For the financial year ended 31 December 2017, NCH's contribution of revenue and profit were immaterial to the Group.

7 Investment in an associate

	Group	
	2018 $'000	**2017 $'000**
Interest in an associate	–	2,234

Associate of NTUC Choice Homes Co-operative Limited

Name	Place of incorporation and business	Principal activities	Effective equity interest	
			2018 %	**2017 %**
One Marina Property Services Pte Ltd [1]	Singapore	Provision of facility management, project management, leasing services and accounting services	–	20

[1] Audited by other firm of public accountants and chartered accountants.

Disposal of investment in associate during the financial year

In July 2018, the Group entered into a share purchase agreement to dispose of its 20% equity interest in One Marina Property Services Pte Ltd and its subsidiary, One Marina Integrated Solutions Pte Ltd, for a total consideration of $2.3 million.

As at 31 December 2018, the Group has received $1.7 million of the consideration in cash. The remaining purchase consideration receivable of $0.6 million was included in the Group's other receivables. The disposal resulted in a loss of $2,105, which was recognised as 'Other expenses' in the Group's consolidated statement of comprehensive income.

The associate was immaterial to the Group and was equity accounted for. The summarised financial information of the associate, not adjusted for the percentage of ownership held by the Group, was as follows:

	2018 $'000	2017 $'000
Combined Assets and Liabilities		
Total assets	–	15,700
Total liabilities	–	4,528
Combined Results		
Revenue	11,349	18,455
Expenses	(10,830)	(17,297)
Profit for the year	519	1,158

For the financial year ended 31 December 2017, the associate's contribution of profit and revenue to the Group was immaterial as it was acquired by the Group only on 31 December 2017.

8 Investment in a joint venture

	Group	
	2018 $'000	2017 $'000
Investment in a joint venture	353,836	362,912

The Group has 50% (2017: 50%) interest in the ownership and voting rights in a joint venture, Gold Ridge Pte Ltd, that is held through a subsidiary. This joint venture is incorporated in Singapore and is a strategic venture in retail property investment. The Group jointly controls the venture with partners under a contractual agreement which requires unanimous consent for all major decisions over the relevant activities.

The Group's commitments in respect of its interest in Gold Ridge Pte Ltd are disclosed in note 23.

The following summarises the financial information of Gold Ridge Pte Ltd based on its financial statements prepared in accordance with FRS, and the Group's accounting policies.

	Gold Ridge Pte Ltd	
	2018 $'000	**2017 $'000**
Revenue	125,219	124,419
Profit from continuing operations/Other comprehensive income for the year	38,048	38,452
Total comprehensive income for the year	38,048	38,452
Profit from continuing operations include:		
– Interest income	436	193
– Depreciation and amortisation	(21,484)	(21,484)
– Interest expense	(23,022)	(19,876)
– Income tax expense	(12,677)	(12,793)
Non-current assets	1,510,346	1,534,269
Current assets	57,780	53,947
Non-current liabilities	(838,052)	(839,324)
Current liabilities	(22,402)	(23,068)
Net assets	707,672	725,824
Net assets include:		
– Cash and cash equivalents	55,398	51,355
– Non-current financial liabilities (excluding deferred tax liabilities)	(827,574)	(829,432)
Group's interest in net assets of joint venture at beginning of the year	362,912	376,186
Dividends received during the year	(28,100)	(32,500)
Share of total comprehensive income	19,024	19,226
Carrying amount of interest in joint venture at end of the year	353,836	362,912

9 Other investments

	Group 2018 $'000	Group 2017 $'000
Non-current		
Debt investments – at amortised cost	195,000	–
Debt investments – held to maturity	–	260,000
	195,000	260,000
Current		
Debt investments – at amortised cost	260,000	–
Debt investments – held to maturity	–	195,000
	260,000	195,000
Total	455,000	455,000

Included in the debt investments classified as at amortised cost (2017: held-to-maturity investments) are the Group's investments in unquoted bonds issued by the holding co-operative, NE. The terms and conditions of the outstanding debt investments classified as at amortised cost (2017: held-to-maturity investments) are as follows:

	Nominal interest rate (%)	**Interest payments**	**Year of maturity**	**Group 2018 $'000**	**Group 2017 $'000**
(i)	1.91%	Annually	2018	–	100,000
(ii)	1.77%	Annually	2018	–	75,000
(iii)	2.13%	Annually	2018	–	20,000
(iv)	1.73%	Annually	2019	260,000	260,000
(v)	2.25%	Annually	2021	100,000	–
(vi)	2.40%	Annually	2021	75,000	–
(vii)	2.30%	Annually	2021	20,000	–
				455,000	455,000

Information about the Group's exposure to credit and market risks, and fair value measurement, is included in note 24.

10 Trade and other receivables

	Group		Co-operative	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Trade receivables	1,624	1,619	–	–
Accrued revenue	3,490	3,935	–	–
Interest receivable	4,694	4,268	84	4
Loans to subsidiaries:				
- Measured at amortised cost	–	–	302,000	3,870,479
- Mandatorily measured at FVTPL	–	–	3,525,479	–
Amounts due from subsidiaries (non-trade)	–	–	35,201	41,999
Other receivables	3,539	3,743	58	3,426
	13,347	13,565	3,862,822	3,915,908
Prepayments	77	3,645	–	3,370
	13,424	17,210	3,862,822	3,919,278

Trade receivables consist of mainly rental receivables from tenants of the investment properties. Interest may be charged at commercial rates where the terms of repayment exceed 14 days after billing. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Amounts due from subsidiaries are non-trade related, unsecured, interest-free and repayable on demand.

Loans to subsidiaries are unsecured, repayable on demand and comprise the following:

(a) $302 million (2017: $325 million); with a weighted average interest of 2.74% (2017: 2.66%) per annum during the year; and

(b) $3,525 million (2017: $3,545 million); with the interest calculated based on (i) 6.5% (2017: 6.5%) of the shareholders' loan amount or (ii) 99% of the subsidiaries' net surplus (2017: 95% of the subsidiaries' net distributable surplus) of each financial year, whichever amount is lower.

On adoption of FRS 109 *Financial Instruments*, the loans to subsidiaries with interest dependent on the subsidiaries' net surplus have been measured mandatorily at fair value through profit or loss (2017: carried at amortised cost). Refer to note 27 for details on the Group's adoption of FRS 109.

11 Cash and cash equivalents

	Group		Co-operative	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Cash on hand	2	2	–	2
Cash at bank	56,690	104,931	12,800	36,737
Fixed deposits	159,792	52,008	158,160	32,008
Cash and cash equivalents	216,484	156,941	170,960	68,747

12 Assets held for sale

In 2018, the Group reclassified two of its investment properties to assets held for sale as:

(a) In May 2018, the Group received a notice of compulsory acquisition from Singapore Land Authority (SLA) for one of its leasehold investment properties. The carrying value of the investment property at 31 December 2018 was $34 million. The completion of the acquisition is expected to be in March 2020. As at date of this report, the consideration for the compulsory acquisition is still under finalisation.

(b) In December 2018, the Group entered into a sale and purchase agreement with an external party to sell one of its leasehold investment properties at $14 million. The completion of the sale is expected to be in June 2019. The Group expects to recognise a gain of $1 million upon completion of the sale, based on the asset's carrying amount of $13 million at 31 December 2018.

13 Loans and borrowings

	Group		Co-operative	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Non-current				
Unsecured bank loans	1,626,084	1,958,000	1,626,084	1,958,000
Secured bank loans	–	175,000	–	–
Unsecured fixed rate notes	348,760	200,000	348,760	200,000
	1,974,844	2,333,000	1,974,844	2,158,000
Current				
Unsecured bank loans	279,970	–	279,970	–
Secured bank loans	175,000	175,000	–	–
	454,970	175,000	279,970	–

Terms and conditions of outstanding loans and borrowings are as follows:

Group	Nominal interest rate %	Year of maturity	Face value $'000	Carrying amount $'000
2018				
Unsecured bank loans	SOR[1]+Margin	2019-2022	1,378,000	1,376,354
Unsecured bank loans	COF[2]+Margin	2019	80,000	80,000
Unsecured bank loans	2.38% - 2.64%	2021-2022	450,000	449,700
Secured bank loans	3.19%	2019	175,000	175,000
Unsecured fixed rate notes	2.80% - 3.10%	2024-2028	350,000	348,760
			2,433,000	2,429,814
2017				
Unsecured bank loans	SOR[1]+Margin	2019-2022	1,378,000	1,378,000
Unsecured bank loans	COF[2]+Margin	2019	130,000	130,000
Unsecured bank loans	2.38% - 2.64%	2021-2022	450,000	450,000
Secured bank loans	2.18% - 3.19%	2018-2019	350,000	350,000
Unsecured fixed rate notes	2.80%	2024	200,000	200,000
			2,508,000	2,508,000
Co-operative				
2018				
Unsecured bank loans	SOR[1]+Margin	2019-2022	1,378,000	1,376,354
Unsecured bank loans	COF[2]+Margin	2019	80,000	80,000
Unsecured bank loans	2.38% - 2.64%	2021-2022	450,000	449,700
Unsecured fixed rate notes	2.80% - 3.10%	2024-2028	350,000	348,760
			2,258,000	2,254,814
2017				
Unsecured bank loans	SOR[1]+Margin	2019-2022	1,378,000	1,378,000
Unsecured bank loans	COF[2]+Margin	2019	130,000	130,000
Unsecured bank loans	2.38% - 2.64%	2021-2022	450,000	450,000
Unsecured fixed rate notes	2.80%	2024	200,000	200,000
			2,158,000	2,158,000

(1) *Swap Offer Rate*
(2) *Bank's cost of funds*

Security

The secured bank loans are secured over investment properties with carrying amounts of $575 million (2017: $555 million) (see note 5).

Unsecured fixed rate notes

On 26 July 2017 and 19 January 2018, the Co-operative issued $200 million notes at 2.80% fixed coupon rate and $150 million notes at 3.10% fixed coupon rate respectively, under the $1,000 million Multicurrency Medium Term Note Programme ("MTN"). The $200 million notes and $150 million notes mature in 2024 and 2028 respectively and interest is repayable semi-annually from the date of issue.

Interest rate swaps

The Group entered into interest rate swaps with a counter party to provide fixed rate funding for unsecured bank loans. Details of the interest rate swaps are set out in note 24.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Loans and borrowings $'000	Interest rate swaps used for hedging – liabilities $'000	Interest payable* $'000	Total $'000
Group				
Balance as at 1 January 2017	463,875	–	5,357	469,232
Changes from financing cash flows				
Interest paid	–	–	(27,582)	(27,582)
Proceeds from loans and borrowings	2,158,000	–	–	2,158,000
Total changes from financing cash flows	2,158,000	–	(27,582)	2,130,418
Conversion of term loan from a shareholder to membership shares	(113,875)	–	–	(113,875)
Interest expense	–	–	31,624	31,624
Change in fair value	–	(38)	–	(38)
Balance as at 31 December 2017	2,508,000	(38)	9,399	2,517,361
Changes from financing cash flows				
Interest paid	–	–	(61,199)	(61,199)
Proceeds from loans and borrowings	150,000	–	–	150,000
Repayment of loans and borrowings	(225,000)	–	–	(225,000)
Total changes from financing cash flows	(75,000)	–	(61,199)	(136,199)
Interest expense	–	–	60,893	60,893
Change in fair value	–	(1,837)	–	(1,837)
Others	(3,186)	–	–	(3,186)
Balance as at 31 December 2018	2,429,814	(1,875)	9,093	2,437,032

* *Included as part of trade and other payables.*

14 Trade and other payables, including derivatives

	Group		Co-operative	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Advance rental billings	1,578	1,967	–	–
Refundable deposits	3,034	2,165	–	1
Interest payable on loans and borrowings	9,093	9,399	6,722	5,357
Amount due to a subsidiary	–	–	252,941	364,653
Accrued expenses	28,916	11,969	3,711	2,285
Other payables	7,842	6,051	2,803	349
Derivative financial liability	1,875	38	1,875	38
Contribution payable to:				
- Central Co-operative Fund	115	50	25	25
- Singapore Labour Foundation	16,009	19,648	14,689	18,323
	68,462	51,287	282,766	391,031
Trade and other payables				
Current	65,135	50,000	280,891	390,993
Non-current	3,327	1,287	1,875	38
	68,462	51,287	282,766	391,031

Amount due to a subsidiary

The amount due to a subsidiary is non-trade, unsecured, interest-free and repayable on demand.

15 Membership shares

	Group and Co-operative			
	2018		2017	
	No. of shares ('000)	$'000	No. of shares ('000)	$'000
Issued and fully paid membership shares, at par value of $1 each:				
In issue at 1 January	1,713,857	1,713,857	640,393	640,393
Issued during the year	89,770	89,770	1,073,464	1,073,464
At 1 January and 31 December	1,803,627	1,803,627	1,713,857	1,713,857

In 2018, there were the following issuance of membership shares:

- 51 million membership shares were issued under the bonus issue where 33 membership shares were issued for every 1,000 membership shares; and
- 39 million membership shares were issued at the par value of $1 each as satisfaction of the consideration of $59 million payable on the acquisition of additional interest in a subsidiary, NCH (note 6).

In 2017, there were the following issuance of membership shares:

- 562 million membership shares were issued at the par value of $1 each arising from the capitalisation of loans from shareholders totalling $562 million;
- 337 million membership shares were issued at the par value of $1 each as satisfaction of the consideration of $438 million payable on the acquisition of investment properties from a shareholder; and
- 174 million membership shares were issued at the par value of $1 each as satisfaction of the consideration of $262 million payable on the acquisition of a subsidiary, NCH (note 6).

Rights of members

(a) The membership shares relate to shares held by members where redemption of share is subject to approval of the Board of Directors.

(b) All members are entitled to redeem their shares at the par value or the net asset value of the Co-operative based on the latest audited financial position as at the date of redemption, whichever is lower.

(c) The shares do not carry any rights to fixed income.

(d) In accordance with Section 4.5 of the Co-operative's By-Laws, every member shall, unless otherwise disqualified under the Act or the By-Laws, have the right to:

    (i) avail himself of all services of the Co-operative;
    (ii) nominate candidates for election or to be co-opted to office, subject to the provisions of the Act and the By-Laws;
    (iii) be represented by delegates, subject to the provisions of the Act and the By-Laws;
    (iv) participate and vote at General Meetings; and
    (v) enjoy all other rights, privileges and benefits as prescribed by the By-Laws.

(e) Members are entitled to receive dividends as and when declared by the Co-operative.

(f) In the event of the winding up of the Co-operative, the assets shall be applied first to the cost of liquidation, then to the discharge of the liabilities of the Co-operative, then to the payment of the share capital or subscription capital, and then, provided that the By-laws of the Co-operative permit, to the payment of a dividend or patronage refund at a rate not exceeding that laid down in the Rules or in the By-Laws.

(g) Any monies remaining after the application of the funds to the purposes specified in the above paragraph (section 88 of Co-operative Societies Act) and any sums unclaimed after two years under Section 89(2) of the Act (which relates to claims of creditors), shall not be divided among the members but shall be carried to the Co-operative Societies Liquidation Account kept by the Registrar of the Co-operative Societies.

(h) A sum carried to the Co-operative Societies Liquidation Account shall be kept in this Account for at least two years. Out of the Co-operative Societies Liquidation Account such sums may be transferred to the Central Co-operative Fund, or applied generally for the furtherance of co-operative principles in such manner, as the Minister may determine from time to time.

Capital risk management policies and objectives

The Co-operative manages its capital to ensure that it will be able to continue as going concern and invests in quality assets at a fair rate of return and largely capital protected. The Co-operative makes adjustments to its capital structure, taking into account changes in economic conditions. To maintain or adjust the capital structure, the Co-operative may adjust the dividend payment to shareholders or return capital to members.

The Group and the Co-operative's overall strategy remains unchanged during the year.

16 Other reserves

	Group		Co-operative	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Capital reserve	386,457	366,539	384,821	365,139
Asset replacement reserve	10,952	23,717	–	–
Hedging reserve	(1,875)	(38)	(1,875)	(38)
Dividend reserve	2,734	–	–	–
	398,268	390,218	382,946	365,101

Capital reserve

Capital reserve arose from the following:

(i) acquisition of investment properties in relation to the past property restructuring exercise; and

(ii) acquisition of a subsidiary and the subsequent acquisition of additional interest in the subsidiary, representing the excess of the fair value of the membership shares issued over the par value of the membership shares issued in satisfaction of the purchase consideration.

Asset replacement reserve

In 2016, the asset replacement reserve was established to meet the replacement and renewal expenses for building, plant and equipment owned and managed by the Group.

	Group		Co-operative	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Balance as at 1 January	23,717	8,752	–	1,540
Transfer (to)/from accumulated profits/ (losses)	(12,765)	14,965	–	(1,540)
Balance as at 31 December	10,952	23,717	–	–
Available for use	10,952	23,717	–	–

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

Dividend reserve

This relates to the Group's share of the dividend reserve of a subsidiary which has established a separate dividend reserve for the proposed final exempt dividend to its shareholders at its next annual general meeting.

17 Revenue

	Group		Co-operative	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Rental income from investment properties	244,459	184,893	–	222
Carpark income	3,406	3,469	–	–
Advertising and promotion income	7,373	5,111	–	–
	255,238	193,473	–	222

18 Other income

	Group		Co-operative	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Management fee income	5,972	3,162	27,476	13,323
Others	7,204	9,253	221	3,525
	13,176	12,415	27,697	16,848

19 Profit before tax and contributions

Included in profit before tax and contributions are the following items:

	Group		Co-operative	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Utilities	4,876	4,712	–	–
Marketing expenses	3,876	2,473	–	–
Loss on disposal of associate	2	–	–	–
Included in staff costs:				
- defined contribution plans	2,247	1,086	377	213

Direct operating expenses arising from rental generating investment properties, including repairs and maintenance but excluding depreciation, that are included in other operating expenses amount to $22 million (2017: $16 million).

20 Finance income and finance costs

	Group		Co-operative	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Finance income				
Interest income under the effective interest method, arising from financial assets measured at amortised cost:				
- Loans to subsidiaries	–	–	8,849	107,723
- Fixed deposits and bank balances	1,300	349	438	60
- Debt instruments – unquoted bonds	8,469	–	–	–
- Others	52	71	–	1
	9,821	420	9,287	107,784
Interest income from financial assets carried at FVTPL – loans to subsidiaries	–	–	104,159	–
Total finance income	9,821	420	113,446	107,784
Finance costs				
Interest expense and borrowing costs on financial liabilities measured at amortised cost:				
- Bank loans	51,859	29,624	46,016	20,226
- Medium Term Notes	10,021	2,439	10,021	2,439
	61,880	32,063	56,037	22,665

21 Tax expense

	Group	
	2018	2017
	$'000	$'000
Current tax		
Current year	5	–
Under provision in respect of previous year	4	2
	9	2
Reconciliation of effective tax rate		
Profit before tax and contributions	88,596	82,116
Share of results of associate and joint venture	(19,128)	(19,226)
	69,468	62,890
Tax calculated using Singapore tax rate of 17%	11,810	10,691
Exempt income *	(13,867)	(10,732)
Non-deductible expenses	2,062	41
Under provision in respect of previous year	4	2
	9	2

** Includes income of any co-operative society registered under the Co-operative Societies Act, Chapter 62, which is exempted from income tax under Section 13 (1)(f)(ii) of the Singapore Income Tax Act, Chapter 134.*

22 Contributions to Central Co-operative Fund and Singapore Labour Foundation

In accordance with Section 71(2)(a) of the Act, all co-operatives under the Group contributes 5% of the first $0.5 million of its surplus resulting from the operations during the year to the Central Co-operative Fund.

In accordance with Section 71(2)(b) of the Act, all co-operatives under the Group have opted to contribute 20% of its surplus (excluding capital gains arising from the disposal of any office premises and shares) in excess of $0.5 million from the operations to the Singapore Labour Foundation.

23 Commitments

As at the reporting date, the following are the outstanding commitments which have not been provided in the financial statements:

(i) Capital commitment

As at 31 December 2017, the Group has capital expenditure contracted but not recognised in the financial statements of $2 million relating to the purchase of certain property, plant and equipment of the Group.

(ii) Operating lease commitments

(a) Leases as lessee

The Group and the Co-operative lease their office and office equipment under lease agreements which are non-cancellable. As at reporting date, the future minimum lease payments are as follows:

	Group		Co-operative	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Within one year	24	285	–	243
Between one and five years	18	42	–	–
	42	327	–	243

(b) Leases as lessor

The Group leases out investment properties in Singapore under operating leases. Future minimum lease payments under non-cancellable leases receivable are as follows:

	Group		Co-operative	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Within one year	213,232	210,304	–	–
Between one and five years	277,583	312,885	–	–
More than five years	151,669	153,545	–	–
	642,484	676,734	–	–

Share of joint venture's operating lease commitments in relation to investment property is as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Within one year	46,808	53,527
Between one and five years	6,819	55,006
	53,627	108,533

24 Financial instruments

Overview

The Group has exposure to the following risks from its activities:

- credit risk;
- liquidity risk; and
- interest rate risk.

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing the risk.

Risk management framework

The Group's overall risk management strategy seeks to minimise adverse effects from the volatility of financial markets on the Group's financial performance.

The Board of Directors of the Co-operative are responsible for setting the objectives and underlying principles of financial risk management for the Group. The 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 exposure to these financial risks or the manner in which it manages and measures the risk.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and debt investments. The Group has a credit policy in place which establishes credit limits for tenants and monitor their balances on an ongoing basis. Credit evaluation are performed on all tenants requiring credit over a certain amount.

The carrying amounts of trade and other receivables, other investments and cash and cash equivalents represent the Group's and the Co-operative's maximum exposure to credit risk. Cash and cash equivalents are placed in banks and financial institutions which are regulated.

The Group and the Co-operative have no significant concentration of credit risk, except for the loans to subsidiaries by the Co-operative.

Impairment loss

Expected credit loss assessment (ECL) as at 1 January and 31 December 2018

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers. ECL is calculated based on actual credit loss experience over the past three years, and adjusted for differences between economic conditions during the period over which the historic data has been collected, current market conditions and the Group's view of economic conditions over the expected lives of the receivables.

Based on the Group's assessment, the amount of expected credit loss on trade receivables is negligible.

The following table provides information about the exposure to credit risk for trade receivables as at 31 December 2018:

	Group
	$'000
31 December 2018	
Not past due	979
Past due 1 – 30 days	464
Past due 31 – 120 days	181
	1,624

Debt investments

The Group invests in bonds issued by the holding co-operative, NTUC Enterprise Co-operative Limited, of $455 million (2017: $455 million) (note 9). Impairment on the bonds has been measured on the 12-month expected loss basis which reflects the low credit risk of the exposure. The amount of the impairment allowance on these bonds is negligible.

Cash and cash equivalents

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposure. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The amount of the allowance on cash and cash equivalents was negligible.

Derivatives

The derivatives are entered into with bank and financial institution counterparties, with sound credit ratings. As at the reporting date, the Group and the Co-operative have entered into interest rate swaps with a total notional amount of $425 million (2017: $50 million).

Amounts due from subsidiaries, including loans to subsidiaries

The Co-operative has balances owing from its subsidiaries of $337 million (2017: $3,912 million). These balances include amounts lent to subsidiaries to satisfy funding requirements. The Co-operative uses a similar approach for assessment of ECLs for these receivables to those used for debt investments. Impairment on these balances has been measured on the 12-month expected loss basis which reflects the low credit risk of the exposures. The amount of the allowance on these balances is negligible.

Comparative information under FRS 39

The ageing analysis of the trade receivables as at 31 December 2017 was as follows:

	Group
	$'000
31 December 2017	
Not past due	180
Past due 1 – 30 days	1,269
Past due 31 – 120 days	170
	1,619

Impairment losses under FRS 39

The Group established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. Based on historical default rates, the Group believed that no impairment allowance is necessary in respect of trade receivables due to the good payment records from its customers.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount $'000	Contractual cash flows $'000	Cash flows: Within 1 year $'000	Cash flows: 1 to 5 years $'000
Group				
2018				
Non-derivative financial liabilities				
Rental deposits	53,017	(53,017)	(14,807)	(38,210)
Trade and other payables*	65,009	(65,009)	(65,009)	–
Loans and borrowings	2,429,814	(2,606,956)	(513,267)	(2,093,689)
	2,547,840	(2,724,982)	(593,083)	(2,131,899)
Derivative financial liability				
Interest rate swaps used for hedging (net-settled)	1,875	(2,354)	(859)	(1,495)
2017				
Non-derivative financial liabilities				
Rental deposits	50,680	(50,680)	(19,573)	(31,107)
Trade and other payables*	49,282	(49,282)	(49,282)	–
Loans and borrowings	2,508,000	(2,688,186)	(226,622)	(2,461,564)
	2,607,962	(2,788,148)	(295,477)	(2,492,671)
Derivative financial liability				
Interest rate swaps used for hedging (net-settled)	38	(716)	(253)	(463)
Co-operative				
2018				
Non-derivative financial liabilities				
Trade and other payables*	280,891	(280,891)	(280,891)	–
Loans and borrowings	2,254,814	(2,431,543)	(337,854)	(2,093,689)
	2,535,705	(2,712,434)	(618,745)	(2,093,689)
Derivative financial liability				
Interest rate swaps used for hedging (net-settled)	1,875	(2,354)	(859)	(1,495)
2017				
Non-derivative financial liabilities				
Trade and other payables*	390,993	(390,993)	(390,993)	–
Loans and borrowings	2,158,000	(2,332,382)	(46,200)	(2,286,182)
	2,548,993	(2,723,375)	(437,193)	(2,286,182)
Derivative financial liability				
Interest rate swaps used for hedging (net-settled)	38	(716)	(253)	(463)

** Excludes advance rental billings and interest rate swaps*

(iii) Market risk – Cash flow and interest rate risks

Market risk is the risk that changes in market prices will affect the Group's profit or loss, or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Interest rate risk

The Group seeks to maintain an efficient and optimal interest cost structure using a mix of fixed and variable interest rate instruments. The Group's exposure to cashflow interest rates arises mainly from variable bank borrowings. The Group manages these cashflow interest rates using floating-to-fixed interest rate swaps.

Where used, interest rate derivatives are classified as cash flow hedges and stated at fair value within the Group's statement of financial position.

At the reporting date, the profile of the variable interest-bearing financial instruments is as follows:

	Group Carrying amount		**Co-operative Carrying amount**	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**
Variable rate instruments				
Cash at bank	56,690	104,931	12,800	36,737
Loans to subsidiaries	–	–	3,525,479	3,545,479
Loans and borrowings^	(1,031,354)	(1,458,000)	(1,031,354)	(1,458,000)
	(974,664)	(1,353,069)	2,506,925	2,124,216

^ *Excludes the $425 million (2017: $50 million) term loans which are hedged by the interest rate swaps*

Cash flow sensitivity analysis for variable rate instruments

The Group's financial assets and liabilities at variable rates for which effective hedges have not been entered into are denominated in Singapore Dollars. If the Singapore Dollar interest rates increase/decrease by 0.5% with other variables held constant, the profit/(loss) before tax and contributions will increase/(decrease) by the amounts as follows:

	Profit/(Loss) before tax and contributions			
	2018		**2017**	
	Increase by 0.5% $'000	**Decrease by 0.5% $'000**	**Increase by 0.5% $'000**	**Decrease by 0.5% $'000**
Group				
Variable rate instruments	(4,873)	4,873	(6,765)	6,765
Co-operative				
Variable rate instruments	12,535	(12,535)	10,621	(10,621)

Hedge accounting – cash flow hedges

The Group hedges its exposure to changes in interest rates of its variable rate borrowings by entering into interest rate swaps with notional contract amount of $425 million (2017: $50 million) whereby it receives variable rates equal to the Singapore swap offer rate on the notional amount and pays fixed interest rate between 1.55% to 2.20% (2017: 1.55%) per annum. The hedges are in place for a 3 year tenure to years 2020 to 2022.

There was no hedge ineffectiveness recognised in the Group's profit or loss in 2018 and 2017. Accordingly, the changes in the value of the hedging instruments of $1,837,000 (2017: $38,000) were recognised in the Group's other comprehensive income and recognised in equity as part of hedging reserve.

(iv) Accounting classifications and fair values

The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy are as follows. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2018	Note	Financial assets at amortised cost $'000	Financial assets at fair value through profit or loss	Fair value – hedging instruments $'000	Financial liabilities at amortised cost $'000	Total carrying amount $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
Group										
Financial assets not measured at fair value										
Cash and cash equivalents	11	216,484	–	–	–	216,484				
Trade and other receivables	10	13,347	–	–	–	13,347				
Debt investments – at amortised cost	9	455,000	–	–	–	455,000				
		684,831	–	–	–	684,831				
Financial liabilities not measured at fair value										
Loans and borrowings	13	–	–	–	2,429,814	2,429,814	341,167	2,099,078	–	2,440,245
Rental deposits		–	–	–	53,017	53,017				
Trade and other payables^	14	–	–	–	65,009	65,009				
		–	–	–	2,547,840	2,547,840				
Financial liabilities measured at fair value										
Interest rate swaps used for hedging	14	–	–	1,875	–	1,875	–	1,875	–	1,875
Co-operative										
Financial assets not measured at fair value										
Cash and cash equivalents	11	170,960	–	–	–	170,960				
Loans to subsidiaries	10	302,000	–	–	–	302,000				
Trade and other receivables	10	35,343	–	–	–	35,343				
		508,303	–	–	–	508,303				
Financial assets measured at fair value										
Loans to subsidiaries	10	–	3,525,479	–	–	3,525,479				
Financial liabilities not measured at fair value										
Loans and borrowings	13	–	–	–	2,254,814	2,254,814	341,167	1,924,078	–	2,265,245
Trade and other payables^	14	–	–	–	280,891	280,891				
		–	–	–	2,535,705	2,535,705				
Financial liabilities measured at fair value										
Interest rate swaps used for hedging	14	–	–	1,875	–	1,875	–	1,875	–	1,875

^ *Excludes advance rental billings and interest rate swaps*

31 December 2017	Note	Loans and receivables $'000	Held-to-maturity $'000	Fair value – hedging instruments $'000	Other financial liabilities $'000	Total carrying amount $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
Group										
Financial assets not measured at fair value										
Cash and cash equivalents	11	156,941	–	–	–	156,941				
Trade and other receivables	10	16,925	–	–	–	16,925				
Debt investments – held to maturity	9	–	455,000	–	–	455,000				
		173,866	455,000	–	–	628,866				
Financial liabilities not measured at fair value										
Loans and borrowings	13	–	–	–	2,508,000	2,508,000	200,000	2,330,755	–	2,530,755
Rental deposits		–	–	–	50,680	50,680				
Trade and other payables^	14	–	–	–	49,282	49,282				
		–	–	–	2,607,962	2,607,962				
Financial liabilities measured at fair value										
Interest rate swaps used for hedging	14	–	–	38	–	–	–	38	–	38
Co-operative										
Financial assets not measured at fair value										
Cash and cash equivalents	11	68,747	–	–	–	68,747				
Trade and other receivables	10	3,915,908	–	–	–	3,915,908				
		3,984,655	–	–	–	3,984,655				
Financial liabilities not measured at fair value										
Loans and borrowings	13	–	–	–	2,158,000	2,158,000	200,000	1,982,729	–	2,182,729
Trade and other payables^	14	–	–	–	390,993	390,993				
		–	–	–	2,548,993	2,548,993				

^ *Excludes advance rental billings, interest rate swaps*

25 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related party transactions

In addition to the transactions disclosed elsewhere in the financial statements, the following significant related party transactions were incurred based on terms as agreed between the parties during the financial year:

	Group		Co-operative	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Rental, advertising and promotion income from related entities included in revenue	44,292	47,045	–	12
Management fee income from related entities included in other income	167	159	27,642	16,754
Rental and affiliation expenses to related entities included in administrative expenses	(281)	(260)	(281)	(258)
Management fees and group wide programme fee paid to related entities included in other operating expenses	(3,239)	(2,172)	(3,239)	(1,533)

Key management personnel remuneration

Key management personnel compensation comprised:

	Group		Co-operative	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Short-term benefits	1,412	1,170	1,412	1,170
Post-employment benefits (including CPF)	48	38	48	38
Directors' fees	216	252	216	252
	1,676	1,460	1,676	1,460

26 Subsequent events

There were the following events subsequent to the reporting date:

- On 24 January 2019, the Co-operative issued $100 million notes at 3.28% fixed coupon rate under its existing $1,000 million Multicurrency Medium Term Note Programme ("MTN"). The $100 million notes will mature in 2025 and interest is repayable semi-annually on the date of issue. The proceeds from the notes were used to part repay a fixed rate bank loan of $175 million on 28 January 2019.

- On 28 January 2019, a fixed rate bank loan of $175 million was repaid from the MTN proceeds of $100 million as described above and the remaining balance was repaid through internal resources.

27 Adoption of new standards

The Group applied the following FRSs, interpretations of FRSs and requirements of FRSs which are mandatorily effective for annual period beginning on 1 January 2018.

- FRS 115 *Revenue from Contracts with Customers* which includes clarifications to FRS 115 *Revenue from Contracts with Customers;*

- FRS 109 *Financial Instruments* which includes amendments arising from FRS 104 *Insurance Contracts;*

- requirements in FRS 102 *Share-based Payment* arising from the amendments to FRS 102 – *Classification and measurement of share-based payment transactions;*

- requirements in FRS 40 *Investment Property* arising from the amendments to FRS 40 – *Transfers of investment property;*

- requirements in FRS 28 *Investments in Associates and Joint Ventures* arising from the amendments to FRS 28 – *Measuring an associate or joint venture at fair value;* and

- INT FRS 122 *Foreign Currency Transactions and Advance Consideration.*

The application of the above standards and interpretations did not have a material effect on the financial statements, except for FRS 109.

FRS 109 Financial Instruments

FRS 109 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces FRS 39 *Financial Instruments: Recognition and Measurement.*

An explanation of how the adoption of FRS 109 has affected the Group and Co-operative's financial statements is set out below.

(a) Classification and measurement: financial assets

The Co-operative has loans to subsidiaries with interest calculated based on (i) 6.5% (2017: 6.5%) of the shareholders' loan amount or (ii) 99% of the subsidiaries' net surplus (2017: 95% of the subsidiaries' net distributable surplus) of each financial year, whichever amount is lower (refer to note 10). As the contractual cash flows of the loan are not solely payments of principal and interest, the loans to subsidiaries are to be carried at fair value through profit or loss under FRS 109 (previously under FRS 39: carried at amortised cost).

(b) Impairment of financial assets

FRS 109 replaces the 'incurred loss' model in FRS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity instruments. Under FRS 109, credit losses are recognised earlier than under FRS 39.

For assets in the scope of the FRS 109 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of FRS 109's impairment requirements at 1 January 2018 did not have a material impact on the financial statements.

Additional information about how the Group measures the allowance for impairment is described in note 3.5.

(c) Transition

Changes in accounting policies resulting from the adoption of FRS 109 have been generally applied by the Group retrospectively, except as described below.

- The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FRS 109 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of FRS 109, but rather those of FRS 39.

- The following assessments were made on the basis of facts and circumstances that existed at 1 January 2018.

  - The determination of the business model within which a financial asset is held; and
  - The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- If a debt investment has low credit risk at 1 January 2018, the Group had assumed that the credit risk on the asset has not increased significantly since its initial recognition.

- New hedge accounting requirements are applied prospectively. All hedging relationships designated under FRS 39 at 31 December 2017 met the criteria for hedge accounting under FRS 109 at 1 January 2018 and therefore were regarded as continuing hedging relationships.

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