HAFARY
HOLDINGS LIMITED

THE LEADING BUILDING MATERIAL SUPPLIER SINCE 1980

ANNUAL REPORT 2018

TABLE OF CONTENTS

CORPORATE **PROFILE**

Hafary Holdings Limited and its subsidiaries (“Hafary”) is a leading supplier of premium tiles, stone, mosaic, wood-flooring, quartz top and sanitary ware and fittings in Singapore. Leveraging on our strong sourcing and procurement network, we carry a wide variety of surfacing materials from Europe (mainly Italy and Spain) and Asia and supply to our customers at competitive prices.

Established in 1980 by Executive Director and CEO, Mr Low Kok Ann, Hafary is organised into 2 core business segments: General and Project. The General segment is spearheaded by the largest sales generator of the group, Hafary Pte Ltd, that supplies ceramics and stone tiles, quartz top and sanitary ware and fittings. Surface Project Pte. Ltd., Surface Stone Pte. Ltd. and Gres Universal Pte. Ltd. cater to demand for surfacing materials for use in construction and development projects. To date, these subsidiaries have supplied tiles and stone for use in a considerable number of quality commercial and residential development projects in Singapore.

Wood Culture Pte. Ltd. complements Hafary’s businesses by offering wood and vinyl flooring. Joint venture, Melmer Stoneworks Pte. Ltd., specializing in the fabrication, polishing and profiling of stone and marble slabs for household and commercial purposes.

Hafary’s Vietnam associate, Viet Ceramics International Joint Stock Company, is its first foray into the overseas tile retailing market. Foshan Hafary Trading Co., Limited, Hafary’s wholly owned export agent in China, provides opportunities for the Group to widen its procurement and business network. Hafary’s China joint venture, Guangdong ITA Element Building Materials Co., Limited, is principally involved in the designing and production of glazed porcelain tiles. Hafary’s Myanmar joint venture, Hafary Myanmar Company Limited, marked the Group’s foray into the developing market of Myanmar.

Corporate headquarters and main showroom of Hafary is located at 105 Eunos Avenue 3, Hafary Centre, Singapore 409836. The group’s main warehouse is located at 3 Changi North Street 1 Singapore 498824 and 18 Sungei Kadut Street 2, World Furnishing Hub, Singapore 729236.

GENERAL

Retail customers may purchase our products directly from our four showrooms located at 105 Eunos Avenue 3 Singapore 409836, 18 Sungei Kadut Street 2, World Furnishing Hub, Level 7, Singapore 729236, 560 Balestier Road Singapore 329876 and 18 Boon Lay Way #01-132 Tradehub 21 Singapore 609966. At our showrooms, customers can look forward to a wide variety of product displays, mock ups of living spaces and amicable service by our showroom sales team. Retail customers include architecture, interior design and renovation firms, who make ad-hoc purchases for small projects such as home renovation or small property development.

PROJECT

We also supply surfacing materials to customers who are involved in public and private property development projects in Singapore. These public sector projects include HDB upgrading, construction or upgrading of public buildings such as schools, hospitals, sport complexes and military camps. Property development projects in the private sector include residential, commercial and industrial projects such as condominiums, shopping centres and hotels. Our Project customers comprise architecture firms, property developers and construction companies.

OUR
PRODUCTS

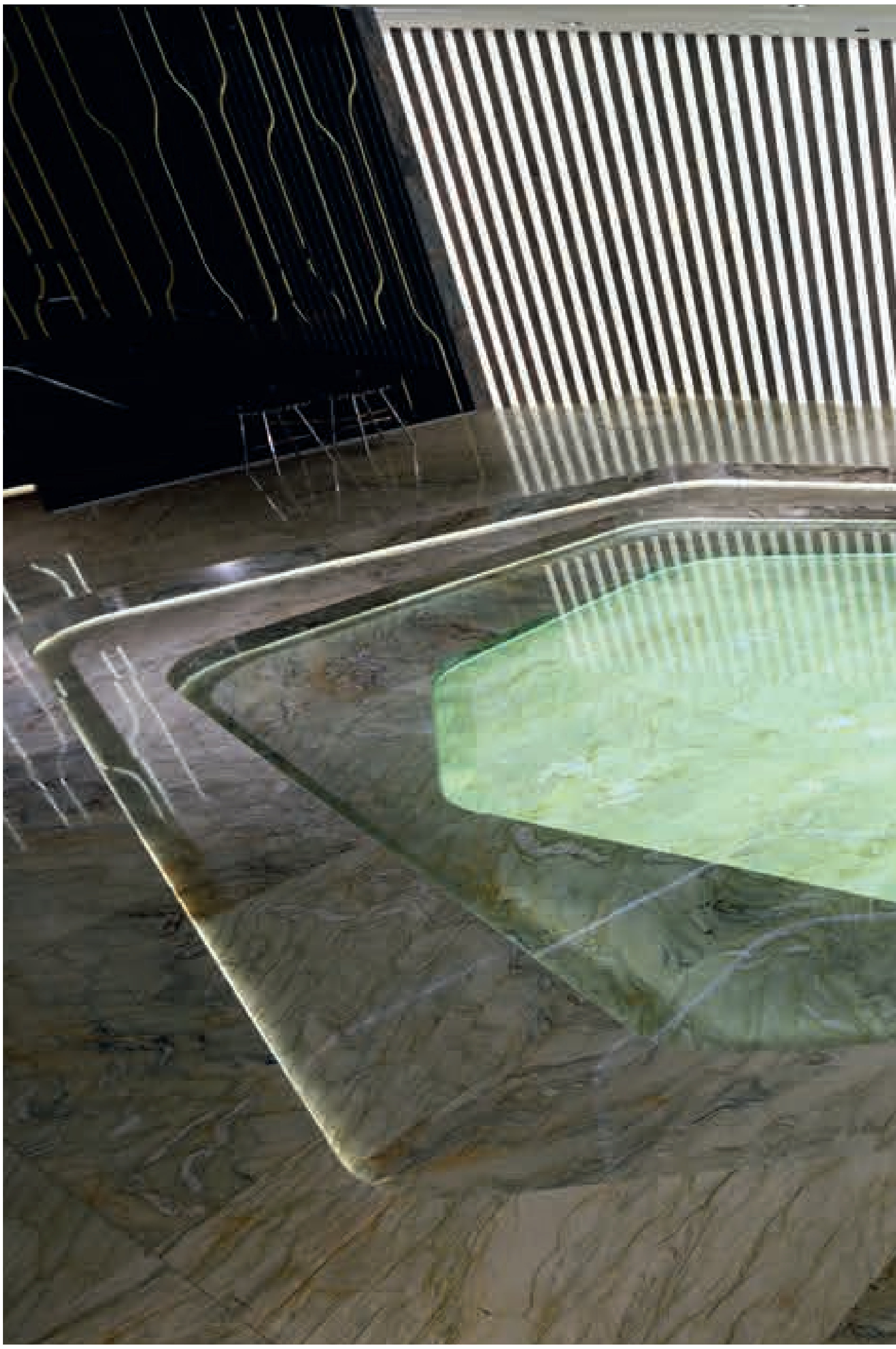
TILES

Dedicated to bringing your design ideas to life, we market and distribute a comprehensive range of premium tiles for your selection. Backed by our strong sourcing and procurement network, we offer quality material at competitive prices while meeting your requirements and preferences.

OUR
PRODUCTS

STONE

Enjoy luxury and beauty that stone offers. Carefully sourced from around the world, we bring in new selections regularly to inspire you with the limitless design possibilities.



OUR
PRODUCTS

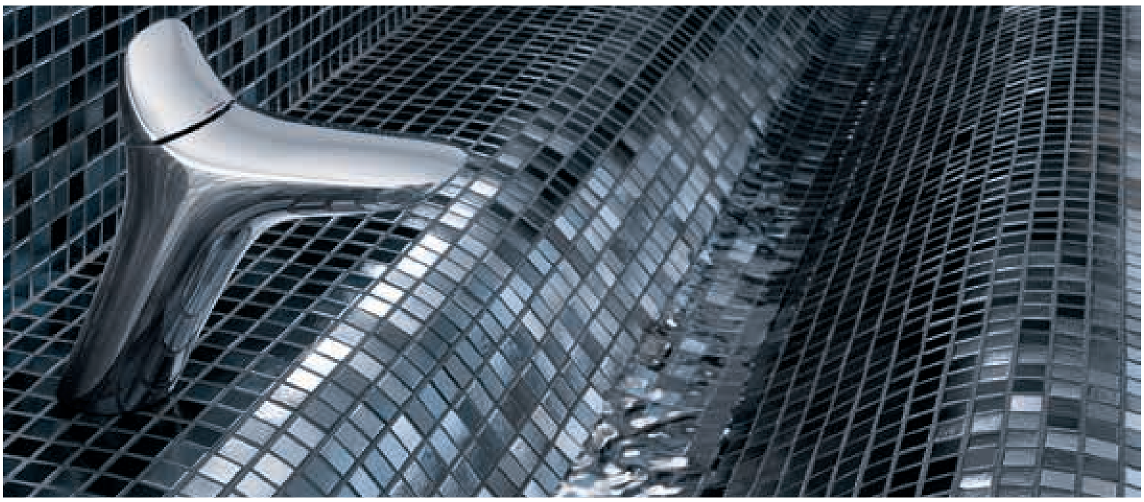
WOOD

We stay ahead at the forefront of the latest wood flooring trends while sourcing timber from well-managed and regulated forests. As such, we are able to achieve the delicate balance between supply and demand, natural and sustainable as well as consumable and renewable.

OUR
PRODUCTS

SANITARY WARES & FITTING

Seeking to offer expedience while creating an integrated and holistic shopping experience for our customers, our showrooms showcase a comprehensive array of high quality internationally renowned sanitary ware and fittings aimed at making every bathroom a luxurious sanctuary.



CEO'S STATEMENT

GOING FORWARD, THE GROUP WILL MONITOR MARKET DEVELOPMENTS CLOSELY FOR SUITABLE OPPORTUNITIES TO EXPAND OUR BUSINESS LOCALLY AND REGIONALLY

DEAR SHAREHOLDERS,

On behalf of the Board of Directors of Hafary Holdings Limited ("Hafary" the "Company" or the "Group"), I am pleased to present you with the Group's Annual Report for the financial year ended 31 December 2018 ("FY2018").

GROUP REVENUE AND PROFITABILITY

For FY2018, the Group registered a 3.6% rise in revenue to S$120.0 million against S$115.8 million in the financial year ended 31 December 2017 ("FY2017"). This was mainly due to an increase in revenue contributed by the general segment which surged 17.0% to S$70.9 million, which was partially offset by revenue from the project segment which decreased 12.8% to S$46.1 million during the year. The project segment continued to be affected by the slowdown of private sector construction activities since 2017.

Profit before income tax rose 21.9% from S$9.8 million in FY2017 to S$12.0 million in FY2018. This was mainly attributed to the increase in revenue, gross profit and interest income, which was partially offset by an increase in employee benefits expense, impairment losses and finance costs.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased marginally to S$21.7 million during the year as compared to S$19.5 million in the previous year.

DIVIDEND ANNOUNCEMENT

In view of the Group's continual profitability in FY2018, the Group declared and paid an interim dividend of 0.5 cent per ordinary share during the year. The Board of Directors is also proposing a final dividend of 0.5 cent per ordinary share for approval at the forthcoming Annual General Meeting.

SINGAPORE BUSINESS

We have been refining our product offering to provide our customers with a quality range of exclusive products unparalleled in the market. As part of the Group's efforts to provide our customers with an enhanced selection experience, we launched our latest showroom, The Stone Gallery by Hafary at the World Furnishing Hub located in Sungei Kadut in October 2018.

The new showroom showcases precious and exotic natural materials via a concept that communicates luxury and innovation through its various simulated environments. Presenting four distinguished Italian companies in the stone industry, the showroom is a mark of the Group's ability to forge exclusive partnerships with leading players in the market. The four companies are Antolini, Salvatori, Petra Antiqua and Kreoo. With this comprehensive offering, we cement our position as the preferred marble supplier in Singapore.

OVERSEAS INVESTMENTS

Vietnam

During the year, we revamped our showrooms in Ho Chi Minh and Hanoi to launch a new Bath and Tiles Studio Concept by our Vietnamese partners, Viet Ceramics International Joint Stock Company ("VCI"). The Bath and Tiles Studio showcases exclusive bathroom collections from leading brands, including Italian brand Gessi Casa and German-made Villeroy & Boch, targetted at individuals and professionals in the architecture and interior design fields.

Through this designer hub, we aim to increase our range of offerings with more up-market products to cater to an increasingly affluent target audience.

CEO'S STATEMENT

Myanmar

FY2018 marked the Group's foray into the developing market of Myanmar. A wholly-owned subsidiary of the Group, Hafary Pte Ltd entered into a joint venture agreement to incorporate Hafary Myanmar Investment Pte. Ltd. ("Hafary Myanmar") on October 2018 to facilitate the Group's penetration into the emerging market.

On January 2019, Hafary Myanmar opened its showroom doors in Bahan Township along Shwegondaing Road. The showroom showcases various kinds of building materials ranging from porcelain, ceramic tiles, and stone to mosaic in wide ranging colour palettes and finishings. Featuring over 1,000 products in Yangon, we are committed to timely delivery and ensuring full satisfaction for local customers, as well as providing diverse designs.

With the establishment of this showroom, we look forward to growing our market share in the emerging market region.

OUTLOOK

The Ministry of Trade and Industry ("MTI") has maintained Singapore's 2019 GDP growth forecast at 1.5% to 3.5%, with growth expected to come in slightly below the mid-point of the forecast range. Demand outlook for Singapore has weakened slightly since late 2018 as global economic uncertainties piled. Underscored by the risk of a further escalation of the trade conflicts between the US and its key trading partners, sharper-than-expected slowdown of the Chinese economy and the impending risk of UK leaving the EU without a withdrawal agreement, the pace of growth in the Singapore economy is expected to slow in 2019.

On the same note, the Building and Construction Authority of Singapore ("BCA") projected construction demand of between S$27 billion and S$32 billion for 2019, while construction demand for 2020 to 2023 ranges between S$27 billion and S$35 billion each year, with about 60% contributed by public sector projects. Key projects in 2019 include government projects that have been brought forward from prior years such as the Kuala Lumpur-Singapore high-speed rail project.

In view of these developments, the Group is cautiously optimistic that Singapore's construction demand will continue to present us with substantial business opportunities. We remain vigilant to market changes and are well-positioned to capitalise on any opportunities to expand our business.

CORPORATE SOCIAL RESPONSIBILITY

In the process of building on our economic performance, we remain committed to our social causes as we believe that giving back to society can have a positive impact on the overall community that we operate in. We were actively involved in various corporate social responsibility events in FY2018.

For the community at large, we made a S$100,000 donation to Thye Hua Kwan Moral Society, a non-profit voluntary welfare organisation to help fund more than 55,000 people through its programmes and services. We also made other donations to organisations such as Buddhist Compassion Relief Tzu Chi Foundation (Singapore), POSB PAssion Kids Fund, SGX Bull Charge Charity Run and Sunlove Home.

Hafary also contributed to the education sector by granting several scholarships and awards to Temasek Polytechnic and Singapore Polytechnic, including the Hafary Scholarship, the Hafary Book Prize, and the Hafary Gold Medal Award.

As part of our commitment to support a vibrant interior designing environment in Singapore, we were the main sponsor for Lookbox Design Awards for the second year running. Additionally, we also sponsored the cross-over event between Qanvast and National Library Board Orchard for a showcase event in July 2018.

SUSTAINABILITY

Besides focusing on our business performance and operations, the Group also takes into account sustainability issues and integrates it into our strategies. As part of our efforts in creating a more sustainable environment through our corporate measures, we have embarked on creating a presence in the digital platform where we engage customers and create brand awareness to complement our retail business.

Our digital platform provides a new shopping experience for our customers and complements our physical store presence. The digital platform comprises the latest product catalogue, as well as the implementation of QR codes for our products. Our customers can now better appreciate how these tiles can be applied through our picture library of mocked-up living spaces. This one-of-a-kind electronic platform not only marks a first in the industry, but also complements our current product selection in our showrooms, enabling us to communicate more effectively to our customers our full range of up-to-date offerings and enhance our brand awareness.

At the same time, we value excellence in customer service. It is central to our business as a distinct building materials supplier in Singapore. In creating a defining customer experience, we have launched several sales and customer engagement initiatives to continually communicate with our customers and promote our products to stay relevant in today's market.

The Group is also dedicating time and resources to looking into ways to automate and digitalise our logistics operations, so as to further increase our efficiency and cost-effectiveness.

IN APPRECIATION

I would like to use this opportunity to express my utmost appreciation to my fellow Directors for their invaluable counsel and guidance. I would also like to thank all our stakeholders for their relentless support and faith in the Group over the years. Finally, I wish to extend my gratitude to our management and employees for their dedication and commitment in steering the Group through these economically challenging times. We will continue to strengthen our business foundation to expand our market share and seize any opportunities that may arise in the process.

LOW KOK ANN
Executive Director & CEO

BOARD OF DIRECTORS

ONG BENG CHYE
INDEPENDENT NON-EXECUTIVE CHAIRMAN

MR ONG BENG CHYE was appointed as Lead Independent Director on 10 November 2009 and was re-elected on 13 April 2018. He was appointed as the Independent Non-Executive Chairman of our Company on 6 March 2015. He graduated with a Bachelor of Science with Honours Degree from The City University, London in 1990 and has more than 25 years of experience in the finance sector. Mr Ong is currently a Director of Appleton Global Pte Ltd, a business management and consultancy services firm. He is also serving as an Independent Director of other listed companies in Singapore. He is a Fellow of The Institute of Chartered Accountants in England and Wales, a Chartered Financial Analyst conferred by The Institute of Chartered Financial Analysts and a non-practising Chartered Accountant (Singapore).

OTHER PRESENT DIRECTORSHIP:
Geo Energy Resources Limited
IPS Securex Holdings Limited
CWX Global Limited
ES Group (Holdings) Limited

PAST DIRECTORSHIP (PRECEDING THREE YEARS):
Heatec Jietong Holdings Ltd.
Kitchen Culture Holdings Ltd.

LOW KOK ANN
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

MR LOW KOK ANN was appointed as Executive Director and Executive Chairman of our Company on 6 October 2009. He was one of the founders of the main subsidiary of our Company, Hafary Pte Ltd, and has been an Executive Director since its incorporation in 1980. His wealth of experience in the tile industry has been pivotal to our success and growth. He was appointed as Chief Executive Officer ("CEO") of our Company on 1 February 2014. On 6 March 2015, Mr Low relinquished his role of Executive Chairman. As the CEO, his primary responsibility is to formulate and oversee the corporate and strategic development and overall management and operations of our Group. Mr Low attained a Government Higher School Certificate (Chinese) in 1969. He was re-elected as Executive Director of our Company on 11 April 2017.

OTHER PRESENT DIRECTORSHIP: NIL

PAST DIRECTORSHIP (PRECEDING THREE YEARS): NIL

BOARD OF DIRECTORS

DATUK EDWARD LEE MING FOO, JP
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

DATUK EDWARD LEE MING FOO, JP was appointed as a Non-Independent Non-Executive Director of our Company on 6 March 2015. He graduated with a Degree in Bachelor of Arts from the McMaster University in Canada in 1977.

Datuk Edward Lee is presently the Managing Director of Hap Seng Consolidated Berhad ("HSCB") and Hap Seng Plantations Holdings Berhad, both listed on the Main Market of Bursa Malaysia Securities Berhad. In addition, he is the Managing Director of Gek Poh (Holdings) Sdn Bhd, the holding company of HSCB. HSCB is also the 50.82% major shareholder of the Company.

OTHER PRESENT DIRECTORSHIP:
Hap Seng Consolidated Berhad
Hap Seng Plantations Holdings Berhad

PAST DIRECTORSHIP (PRECEDING THREE YEARS): NIL

LOW SEE CHING
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

MR LOW SEE CHING was appointed as the Non-Independent Non-Executive Director on 31 January 2014. Prior to this appointment, he served in the Board as Executive Director and in the Company as CEO. He joined the main subsidiary of our Company, Hafary Pte Ltd, in 2000 and rose through the ranks from Sales Executive to CEO in 2005. As the CEO, he was responsible for the overall management, operations and charting our corporate and strategic direction, including our sales, marketing and procurement strategies. Mr Low is presently the Executive Director and Deputy CEO of Oxley Holdings Limited, listed on the Mainboard of Singapore Exchange. Mr Low graduated with a Bachelor of Accountancy Degree from Nanyang Technological University, Singapore in 1999. He was re-elected as Director of the Company on 11 April 2016.

OTHER PRESENT DIRECTORSHIP:
Oxley Holdings Limited
Aspen (Group) Holdings Limited (Alternate Director)

PAST DIRECTORSHIP (PRECEDING THREE YEARS):
Artivision Technologies Ltd.
HG Metal Manufacturing Limited

BOARD OF DIRECTORS

CHEAH YEE LENG
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

MS CHEAH YEE LENG was appointed as a Non-Independent Non-Executive Director of our Company on 6 March 2015. She holds a Bachelor of Economics Degree and Bachelor of Laws Degree from Monash University in Australia.

Ms Cheah joined Hap Seng Consolidated Berhad ("HSCB") group of companies in 1997 and was appointed an Executive Director of HSCB on 1 June 2014. She is presently the Director of Corporate Affairs and the Legal Counsel of HSCB Group.

Ms Cheah is also an Executive Director of Hap Seng Plantations Holdings Berhad ("HSP") and a Non-Independent Non-Executive Director of Paos Holdings Berhad, both listed on the Main Market of Bursa Malaysia Securities Berhad. In addition, she is the Group Company Secretary of HSP.

OTHER PRESENT DIRECTORSHIP:
Hap Seng Consolidated Berhad
Hap Seng Plantations Holdings Berhad
Paos Holdings Berhad

PAST DIRECTORSHIP (PRECEDING THREE YEARS): NIL

YONG TEAK JAN @ YONG TECK JAN
NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

MR YONG TEAK JAN @ YONG TECK JAN was appointed as a Non-Independent Non-Executive Director of our Company on 18 January 2018. Mr Yong graduated with a Bachelor of Science with Honours in Chemistry from the University of Malaya, Malaysia.

He has more than 20 years of experience in the building material and engineering industries in Malaysia and Singapore. He had held various positions such as business development, sales and marketing, export, manufacturing and procurement scopes in Eastech Steel Mill Services (M) Sdn Bhd and Salcon Limited.

He is currently a director and the Chief Operating Officer of Malaysian Mosaics Sdn Bhd, the manufacturer of MML, one of Malaysia's leading brands in porcelain and ceramic tiles with more than five decades in the market. Concurrently, Mr Yong is also the Director of Operations (East Malaysia) for the quarry, asphalt and brick segment of Hap Seng Consolidated Berhad.

OTHER PRESENT DIRECTORSHIP: NIL

PAST DIRECTORSHIP (PRECEDING THREE YEARS): NIL

BOARD OF DIRECTORS

TERRANCE TAN KONG HWA
INDEPENDENT DIRECTOR

MR TERRANCE TAN KONG HWA was appointed as an Independent Director of our Company on 10 November 2009 and was re-elected on 11 April 2016. He has more than 20 years of experience in the banking and private equity/ venture capital industry, holding various positions within DBS Bank Group and Standard Chartered Bank. Between 2002 and 2007, Mr Tan was key executive officer with several listed entities, responsible for financial affairs, business matters, merger and acquisition and investment activities. He is currently a Partner/ Director of Providence Capital Management Pte Ltd, a private equity fund management and consultancy firm that he co-founded in 2007. Mr Tan graduated with a Degree in Bachelor of Science (Estate Management) (Honours) from the National University of Singapore in 1989.

OTHER PRESENT DIRECTORSHIP: NIL

PAST DIRECTORSHIP (PRECEDING THREE YEARS):
Interplex Holdings Limited

CHOW WEN KWAN MARCUS
INDEPENDENT DIRECTOR

MR CHOW WEN KWAN MARCUS was appointed as an Independent Director of our Company on 10 November 2009 and was re-elected on 11 April 2017. He is currently a partner of Bird & Bird ATMD LLP in Singapore and has more than 16 years of experience in legal practice. His practice focuses on mergers and acquisitions, private equity as well as equity and debt capital markets. He had worked in various international law firms in New York, Hong Kong and Singapore. Mr Chow graduated with a Bachelor of Laws from the National University of Singapore in 1998 and a Master of Laws from the University of Virginia in 1999. He also holds a certificate in Governance as Leadership from the Harvard Kennedy School. Mr Chow is qualified to practice in Singapore and New York, USA.

OTHER PRESENT DIRECTORSHIP:
IAG Holdings Limited
Katrina Group Ltd.
ValueMax Group Limited
Versalink Holdings Limited

PAST DIRECTORSHIP (PRECEDING THREE YEARS):
SMJ International Holdings Ltd.
Rich Capital Holdings Limited
(previously known as Infinio Group Limited)

KEY MANAGEMENT

TAY ENG KIAT JACKSON CHIEF OPERATING OFFICER & COMPANY SECRETARY

Mr Tay joined our Group in 2009. He is currently the Chief Operating Officer and Company Secretary of the Group. He oversees the operational and corporate secretarial functions, which includes business development and investor relations. He also superheads overall corporate and strategic development in Singapore and overseas.

Mr Tay has more than 16 years of experience in Accounts and Finance functions of various entities in the public and private sector.

Currently, Mr Tay is an Independent Director and the Member of Audit & Risk Committee of OUE Lippo Healthcare Limited, a company listed on the SGX Catalist. Mr Tay is also the Chairman and Independent Director of Sim Leisure Group Ltd, a company whose shares are listed and quoted on the Catalist Board of the SGX-ST.

He holds a Bachelor of Accountancy (Minor in Marketing) degree from Nanyang Technological University, Singapore and is member of the Institute of Singapore Chartered Accountants.

KOH YEW SENG MIKE DIRECTOR – LOGISTICS

Mr Koh joined our Group in 2008. His responsibilities include overseeing our warehouse and logistics operations and also assisting the CEO with procurement administration. He also facilitates operational coordination between the Group's Singapore and overseas entities. Mr Koh has more than 15 years of experience in the tile industry. He attained his General Certificate of Education 'O' Levels in 1977.

GOH KENG BOON FRANK PROJECT DIRECTOR

Mr Goh joined our Group in 2004. He heads the Project Sales and Marketing team of Surface Project Pte Ltd, a key subsidiary involved in private sector project sales and leads the execution of its corporate sales strategies. Mr Goh has more than 15 years of experience in the tile industry. He graduated with a Bachelor Degree in Building Management from RMIT University, Australia in 2001.

CHEONG CHING HING SIMON BUSINESS DEVELOPMENT DIRECTOR / HR DIRECTOR

Mr Cheong joined our Group in 2010. He oversees the Marketing and Human Resources function and plays an active role in developing various business divisions. Mr Cheong has more than 15 years of experience in the tile industry. He graduated with a Diploma in Mechanical Engineering from Ngee Ann Polytechnic in 1991 and has a Diploma in Salesmanship from Managing & Marketing Sales Association (United Kingdom).

TAY CHYE HENG STEPHEN PUBLIC PROJECT DIRECTOR

Mr Tay joined our Group in 2011 to set up and lead the Public Project Department specialising in the supply of building materials for use in Housing Development Board ("HDB") flats and government buildings. Mr Tay has more than 30 years of experience and held various key positions in his past employments in the tile industry. He attained his General Certificate of Education 'O' Levels in 1974.

LEE YEE FEI MANDY FINANCE MANAGER

Ms Lee joined our Group in 2015 as Assistant Finance Manager and has been the Finance Manager since 2016. She oversees the Group's finance and corporate functions, including financial reporting, tax, treasury, internal controls, governance and regulatory compliance. Ms Lee has 10 years of working experience in the area of audit, finance and accounting. She is a non-practising Chartered Accountant (Singapore).

GROUP STRUCTURE

HAFARY HOLDINGS LIMITED
UEN: 200918637C

100%
HAFARY PTE LTD
UEN: 198001531R

SINGAPORE

70%
SURFACE PROJECT PTE. LTD.
UEN: 200500263N

90%
SURFACE STONE PTE. LTD.
UEN: 200906485D

100%
WOOD CULTURE PTE. LTD.
UEN: 201007442H

100%
HAFARY CENTRE PTE. LTD.
UEN: 201026113W

100%
MARBLE TRENDS PTE. LTD.
UEN: 201309646E

46%
WORLD FURNISHING HUB PTE. LTD.
UEN: 201317854K
(Subsidiary)

100%
HAFARY TRADEMARKS PTE. LTD.
UEN: 201526416M

56%
GRES UNIVERSAL PTE. LTD.
UEN: 201610591C

51%
HAFARY BALESTIER SHOWROOM PTE. LTD.
UEN: 201603055M

33.33%
HAFARY MYANMAR INVESTMENT PTE. LTD.
UEN: 201834571E
(Joint Venture)

50%
MELMER STONEWORKS PTE. LTD.
UEN: 201216143E
(Joint Venture)

100%
HAFARY W+S PTE. LTD.
UEN: 201834344K

100%
HAFARY VIETNAM PTE. LTD.
UEN: 201120831H

100%
HAFARY INTERNATIONAL PTE. LTD.
UEN: 201305688M

100%
HAFARY BUILDING MATERIALS PTE. LTD.
UEN: 201724020R

OVERSEAS

49%
VIET CERAMICS INTERNATIONAL JOINT STOCK COMPANY
UEN: 0311028311
(Associate incorporated in Vietnam)

100%
FOSHAN HAFARY TRADING CO., LTD
UEN: 440600400022964
(Subsidiary incorporated in China)

50%
GUANGDONG ITA ELEMENT BUILDING MATERIALS CO., LIMITED
UEN: 91440604MA4WQTML60
(Joint venture incorporated in China)

FINANCIAL HIGHLIGHTS

FOR THE YEAR	FY2018 $'000	FY2017 $'000	FY2016 $'000	12M2015* $'000	18M2015 $'000	FY2014 $'000
Revenue – General	70,949	60,637	56,176	56,234	88,847	50,388
Revenue – Project	46,053	52,795	50,920	63,903	90,824	41,283
Revenue – Others	2,997	2,402	2,539	2,577	3,573	1,074
Total Revenue	119,999	115,834	109,635	122,714	183,244	92,745
Revenue – General (% of total revenue)	59.1%	52.3%	51.2%	45.8%	48.5%	54.3%
Revenue – Project (% of total revenue)	38.4%	45.6%	46.4%	52.1%	49.6%	44.5%
Earnings before interest, income taxes and depreciation ("EBITDA")	21,741	19,497	16,510	19,737	31,374	15,169
EBITDA margin (%)	18.1%	16.8%	15.1%	16.1%	17.1%	16.4%
Finance cost (i.e. Interest expense)	4,161	3,607	2,717	2,713	3,753	1,784
Profit before income tax	11,989	9,839	9,502	13,751	22,828	10,747
Profit before income tax margin (%)	10.0%	8.5%	8.7%	11.2%	12.5%	11.6%
Net Profit	10,119	8,432	7,909	15,737	23,645	8,720
Net Profit margin (%)	8.4%	7.3%	7.2%	12.8%	12.9%	9.4%
Profit after income taxes and non-controlling interest ("PATNCI")	10,723	8,745	8,170	14,691	22,176	8,048
PATNCI margin (%)	8.9%	7.5%	7.5%	12.0%	12.1%	8.7%

AT YEAR END	FY2018 $'000	FY2017 $'000	FY2016 $'000	FY2015 $'000	FY2014 $'000
Non-current assets	131,863	135,393	133,162	111,494	77,031
Current assets	104,589	95,122	94,127	102,578	77,303
Total assets	236,452	230,515	227,289	214,072	154,334
Non-current liabilities	83,653	87,478	90,548	66,251	37,390
Current liabilities	86,606	81,959	79,014	93,023	76,660
Total liabilities	170,259	169,437	169,562	159,274	114,050
Total debt	143,367	144,953	143,697	123,641	91,642
Cash and cash equivalents	6,063	5,996	4,438	8,531	4,857
Net debt	137,304	138,957	139,259	115,110	86,785
Shareholders' equity	64,012	58,032	54,175	50,787	37,649
Total equity	66,193	61,078	57,727	54,798	40,284
Number of ordinary shares ('000)	430,550	430,550	429,000	429,000	429,000
Weighted average number of ordinary shares ('000)					
– Basic	430,550	429,769	429,000	429,000	429,000
– Diluted	430,550	429,769	430,262	429,000	429,000
Share price at year end (cents)	16.4	17.5	20.0	18.5	17.8
Market capitalisation as at year end	70,610	75,346	85,800	79,365	76,362

FINANCIAL HIGHLIGHTS

FINANCIAL RATIOS	FY2018	FY2017	FY2016	12M2015*	18M2015	FY2014
PROFITABILITY						
Revenue growth (%)	3.6%	5.7%	-10.7%	17.6%+	19.6%#	11.3%
PATNCI growth (%)	22.6%	7.0%	-44.4%	33.0%+	42.8%#	-64.0%
Return on assets (%) (PATNCI/Total assets)	4.5%	3.8%	3.6%	6.9%	10.4%	5.2%
Return on equity (%) (PATNCI/Average shareholders' equity)	17.6%	15.6%	15.6%	32.3%	48.8%	19.6%
LIQUIDITY						
Current ratio (times)	1.2	1.2	1.2	1.1	1.1	1.0
Cash as per share (cents)	1.4	1.4	1.0	2.0	2.0	1.1
Net assets per share (cents)	14.9	13.5	12.6	11.8	11.8	8.8
LEVERAGE						
Net debt to equity ratio (times) (Net debt/ Shareholders' equity)	2.1	2.4	2.6	2.3	2.3	2.3
Interest cover (times) (EBITDA/ Finance cost)	5.2	5.4	6.1	7.3	8.4	8.5
INVESTORS' RATIO						
Earnings per share (cents) (Basic and fully diluted)	2.5	2.0	1.9	3.4	5.2	1.9
Gross dividend per share (cents) – Interim	0.5	1.0	1.0	1.0	2.0	1.0
Gross dividend per share (cents) – Final	0.5	0.5	–	–	–	0.3
Total gross dividend per share (cents) ("DPS")	1.0	1.5	1.0	1.0	2.0	1.3
Gross dividend yield (%) based on year end share price	6.1%	8.6%	5.0%	5.4%	10.8%	7.3%
Gross dividend payout (%) (Gross dividend/Profit after tax attributable to shareholders)	40.2%	49.1%	52.5%	29.2%	38.7%	69.3%

* Unaudited 12-month results presented for comparative purposes.

+ Comparison with the previous 12-month period ended 31 December 2014.

Comparison with the previous 18-month period ended 31 December 2014.

FINANCIAL REVIEW

STATEMENT OF COMPREHENSIVE INCOME	FY2018 S$'000	FY2017 S$'000	CHANGE S$'000	CHANGE %
Revenue	119,999	115,834	4,165	3.6
Interest Income	472	58	414	N.M.
Other Gains	601	608	(7)	(1.2)
Changes in Inventories of Finished Goods	7,418	1,444	5,974	N.M.
Purchases and Related Costs	(76,144)	(69,785)	(6,359)	9.1
Employee Benefits Expense	(19,637)	(18,515)	(1,122)	6.1
Amortisation and Depreciation Expense	(6,063)	(6,109)	46	(0.8)
Impairment Losses	(1,907)	(1,843)	(64)	3.5
Other Losses	(420)	(521)	101	(19.4)
Finance Costs	(4,161)	(3,607)	(554)	15.4
Other Expenses	(10,734)	(10,811)	77	(0.7)
Share of Profit from An Equity-Accounted Associate	3,108	3,277	(169)	(5.2)
Share of Losses from Equity-Accounted Joint Ventures	(543)	(191)	(352)	N.M.
PROFIT BEFORE INCOME TAX	**11,989**	**9,839**	**2,150**	**21.9**
Income Tax Expense	(1,870)	(1,407)	(463)	32.9
PROFIT, NET OF TAX	**10,119**	**8,432**	**1,687**	**20.0**
Other Comprehensive Loss: Item that may be Reclassified Subsequently to Profit or Loss: Exchange Differences on Translating Foreign Operations, Net of Tax	(437)	(652)	215	(33.0)
TOTAL COMPREHENSIVE INCOME	**9,682**	**7,780**	**1,902**	**24.4**
PROFIT ATTRIBUTABLE TO:				
– Owners of the Parent, Net of Tax	10,723	8,745	1,978	22.6
– Non-Controlling Interests, Net of Tax	(604)	(313)	(291)	93.0
	10,119	**8,432**	**1,687**	**20.0**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
– Owners of the Parent	10,286	8,093	2,193	27.1
– Non-Controlling Interests	(604)	(313)	(291)	93.0
	9,682	**7,780**	**1,902**	**24.4**

REVENUE

During FY2018, The Group achieved modest increase in revenue across the general segment at the back of a more active property resale market. The project segment continued to be affected by the slowdown of private sector construction activities since 2017. Group revenue was S$120.0 million in FY2018 compared to S$115.8 million in FY2017.

INTEREST INCOME

Interest income for FY2018 comprised mainly of investment income from unquoted investment in prior year.

OTHER GAINS

Other gains for FY2018 comprised mainly of fair value gain on derivative financial instruments of S$0.2 million, compensation received of S$0.2 million, insurance claimed of S$0.1 million and government grant income, such as those from wages credit scheme and special employment credit, amounting to S$0.1 million.

FINANCIAL REVIEW

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

Other gains for FY2017 comprised mainly of foreign exchange adjustment gains of S$0.2 million, trade payables written back of S$0.2 million, fair value gain on investment in 4.85% shareholding in SMJ International Holdings Ltd ("SMJ") of S$0.1 million and government grant income, such as those from wage credit scheme and temporary employment credit, of S$0.1 million.

OTHER LOSSES

Other losses for FY2018 comprised mainly of foreign exchange adjustments loss of S$0.2 million and fair value loss on investment in quoted shares (SMJ) amounting S$0.2 million.

Other losses for FY2017 comprised mainly of fair value loss on derivative financial instruments of S$0.5 million.

COST OF SALES

Cost of sales comprise purchases and related costs net of changes in inventories of finished goods for the respective financial periods. Cost of sales increased by S$0.4 million or 0.6% from S$68.3 million during FY2017 to S$68.7 million during FY2018. The gross profit margin of 41.3% for FY2018 has improved slightly compared to 39.8% achieved in FY2017.

EMPLOYEE BENEFITS EXPENSE

The increase by S$1.1 million or 6.1% from S$18.5 million during FY2017 to S$19.6 million during FY2018 is mainly due to increment with effect from July 2018, overtime expenses, changes in commission package and increase in headcount. As at 31 December 2018, the Group had 348 employees (including directors) (31 December 2017: 328).

AMORTISATION AND DEPRECIATION EXPENSE

These expenses remain constant for FY2018 and FY2017 at S$6.1 million.

IMPAIRMENT LOSSES

Impairment losses remain constant at S$1.9 million mainly due to the increase in allowance for impairment of trade receivables of S$0.3 million offset with decrease in allowance for impairment of inventories of S$0.3 million.

The management assesses the collectability of trade receivables regularly, considering various factors such as financial status of the Group's customers and age of trade debts. Impairment on specific trade receivables would be made if the chance of recovery is very low. Besides that, expected credit losses ("ECL") model is also being applied to determine the loss allowance for trade receivables based on historical observed default rates adjusted for forward-looking estimates in accordance with SFRS(I) 9 effective from 1 January 2018.

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

FINANCE COSTS

Finance costs increased by S$0.6 million or 15.4% from S$3.6 million in FY2017 to S$4.2 million in FY2018. The increase in finance costs was mainly due to increase in interest rates.

OTHER EXPENSES

Other expenses decreased by S$0.1 million or 0.7% from S$10.8 million during FY2017 to S$10.7 million during FY2018. Other major expense items include commission expense, land rent, property tax, rental of premises, upkeep of motor vehicles and utilities.

SHARE OF RESULTS FROM EQUITY-ACCOUNTED ASSOCIATE AND JOINT VENTURE COMPANIES

These relate to share of results from our Vietnam associate, Viet Ceramics International Joint Stock Company ("VCI") and from joint venture companies, Melmer Stoneworks Pte. Ltd. ("MSPL") Guangdong ITA Element Building Materials Co., Limited ("GE") and Hafary Myanmar Investment Pte. Ltd ("HMI").

Share of profits from VCI amounted to S$3.1 million (2017: S$3.3 million).

Share of profits from MSPL was S$0.1 million (2017: Loss of S$0.1 million). Share of losses from GE amounted to S$0.6 million (2017: Loss of S0.1 million). HMI is in the first year of incorporation and share of loss was minimal.

PROFIT BEFORE TAX

Profit before income tax ("PBIT") increased by S$2.2 million or 21.9% from S$9.8 million in FY2017 to S$12.0 million in FY2018.

Excluding share of results from the associate and joint venture companies amounting to S$2.6 million (FY2017: S$3.1 million), PBIT generated from recurring activities was S$9.4 million (FY2017: S$6.8 million).

The higher PBIT generated from recurring activities for FY2018 was largely due to the increase in revenue, gross profit and interest income. This has partially offset by higher employee benefits expense and finance costs.

FINANCIAL REVIEW

STATEMENT OF FINANCIAL POSITION	FY2018 S$'000	FY2017 S$'000	CHANGE S$'000	CHANGE %
NON-CURRENT ASSETS:				
Property, Plant and Equipment	80,707	83,730	(3,023)	(3.6)
Other Assets, Non-Current	30,550	31,890	(1,340)	(4.2)
Investment Property	4,228	4,247	(19)	(0.4)
Investments in an Associate	12,480	9,784	2,696	27.6
Investments in Joint Ventures	2,483	3,106	(623)	(20.1)
Other Financial Assets, Non-Current	423	2,636	(2,213)	(84.0)
Other Receivables, Non-Current	992	–	992	N.M.
CURRENT ASSETS:				
Inventories	57,192	51,250	5,942	11.6
Trade and Other Receivables, Current	34,666	32,733	1,933	5.9
Other Assets, Current	6,668	5,143	1,525	29.7
Cash and Cash Equivalents	6,063	5,996	67	1.1
TOTAL ASSETS	**236,452**	**230,515**	**5,937**	**2.6**
EQUITY:				
Equity, Attributable to Owners of the Parent	64,012	58,032	5,980	10.3
Non-Controlling Interests	2,181	3,046	(865)	(28.4)
TOTAL EQUITY	**66,193**	**61,078**	**5,115**	**8.4**
NON-CURRENT LIABILITIES:				
Deferred Tax Liabilities	573	580	(7)	(1.2)
Other Financial Liabilities, Non-Current	83,080	86,898	(3,818)	(4.4)
CURRENT LIABILITIES:				
Provision	891	653	238	36.4
Income Tax Payable	2,043	1,589	454	28.6
Trade and Other Payables	20,835	19,988	847	4.2
Other Financial Liabilities, Current	60,287	58,055	2,232	3.8
Other Liabilities	2,515	1,445	1,070	74.0
Derivative Financial Liabilities	35	229	(194)	(84.7)
TOTAL LIABILITIES	**170,259**	**169,437**	**822**	**0.5**
TOTAL EQUITY AND LIABILITIES	**236,452**	**230,515**	**5,937**	**2.6**

FINANCIAL REVIEW

NON-CURRENT ASSETS

Non-current assets decreased by S$3.5 million or 2.6% from S$135.4 million as at 31 December 2017 to S$131.9 million as at 31 December 2018.

Property, plant and equipment decreased by S$3.0 million or 3.6% from S$83.7 million as at 31 December 2017 to S$80.7 million as at 31 December 2018. The decrease was mainly due to depreciation expense amounting to S$4.8 million and foreign exchange adjustment of S$0.3 million. These were partially offset by the addition of plant and equipment amounting to S$2.1 million during the year.

Other assets pertain to land use rights of the Group's leasehold properties in Singapore and China. The decrease amounting to S$1.3 million was due to foreign exchange adjustment loss of S$0.1 million and amortisation expense of S$1.2 million.

The increase in investment in associate amounting to S$2.7 million pertained to shares of profits amounting to S$3.1 million from VCI during FY2018 and was partially offset by dividend received by the Group of S$0.4 million.

The decrease in investment in joint ventures amounting to S$0.6 million pertained to share of losses of S$0.5 million and foreign exchange loss on translating foreign operation amounting to S$0.1 million.

The investment property at carrying amount of S$4.2 million is located at 532 Balestier Road Singapore 329859.

Other financial assets pertain to the Group's investment in shares of SMJ International Holdings Limited (Listed on SGX Catalist) and a tile wholesale company in China. The decrease of S$2.2 million from S$2.6 million as at 31 December 2017 to S$0.4 million as at 31 December 2018 was due to fair value loss on other financial asset of S$0.2 million and reclassification of the unquoted investment to other receivables, upon shareholder withdrawal agreement signed on 20 December 2018.

CURRENT ASSETS

Current assets increased by S$9.5 million or 10.0% from S$95.1 million as at 31 December 2017 to S$104.6 million as at 31 December 2018. The increase was mainly due to increase in inventories, trade and other receivables, other assets and cash and cash equivalent amounting to S$6.0 million, S$1.9 million, S$1.5 million and S$0.1 million respectively.

Inventory turnover as at 31 December 2018 is 304 days compared to 273 days as at 31 December 2017. Trade receivables turnover as at 31 December 2018 is 94 days compared to 102 days as at 31 December 2017.

Other assets comprised advance payment to suppliers, unbilled contract assets, deposits to secure services and prepayments. The increase in other assets was mainly due to increase in advance payment to suppliers and unbilled contract assets.

NON-CURRENT LIABILITIES

Non-current liabilities decreased by S$3.8 million or 4.4% from S$87.5 million as at 31 December 2017 to S$83.7 million as at 31 December 2018. The decrease was due to repayment of loans of S$3.8 million.

CURRENT LIABILITIES

Current liabilities increased by S$4.7 million or 5.7% from S$81.9 million as at 31 December 2017 to S$86.6 million as at 31 December 2018.

The increase was mainly attributable to the increase in other financial liabilities, other liabilities, trade and other payables, provision and income tax payables by S$2.2 million, S$1.1 million, S$0.9 million, S$0.2 million and S$0.5 million respectively. The increase was partially offset by the decrease of derivative financial liabilities of S$0.2 million.

Total amount of trade payables and trust receipts and bills payable to banks was S$34.5 million (31 December 2017: S$32.1 million). The turnover of the aforesaid items (based on cost of sales) is 183 days as at 31 December 2018 compared to 171 days as at 31 December 2017.

The increase in other financial liabilities was mainly due to increase in trust receipts and bills payable to banks by S$1.4 million and net loan drawdown amounting to S$0.8 million.

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

Derivative financial liabilities are outstanding foreign currency forward contracts as at year end date. As at 31 December 2018, the difference between forward contract rates and the forward market rates were in favour of the Group and resulted in a fair value gain. This fair value gain was recorded in profit or loss under other gains in FY2018.

FINANCIAL
REVIEW

List of Properties held by the Group	105 Eunos Avenue 3 Hafary Centre Singapore 409836	3 Changi North Street 1 Singapore 498824	54/56 Sungei Kadut Loop Singapore 729477	18C Sungei Kadut Street 4 Singapore 729066	18 Sungei Kadut Street 2 World Furnishing Hub Singapore 729236	North Fang Xun Road, Hecheng Street (Fuwan), Gaoming District, Foshan, Guangzhou, China	532 Balestier Road Singapore 329859
Description	6-storey light industrial building	2-storey warehouse	1-storey warehouse	Warehousing/ Production premises/ 2-storey ancillary building	7-storey industrial building	Warehouse and 5-storey dormitory	2-storey corner prewar shophouse
Purpose	Headquarters and main showroom	Main warehouse	Warehouse	Marble processing facility	Commercial and warehousing	Warehouse	Commercial
Tenure of land	Expiring 14 September 2039	Expiring 29 February 2029 with an option for a further term of 30 years subject to conditions	Expiring 15 January 2025	Expiring 15 September 2025	Expiring 30 September 2043	Expiring 30 December 2050	Freehold
Area ('000 square feet) - Land - Gross floor or net lettable area	54 130	113 151	105 69	56 46	107 296	441 287	2 3
Purchase price (S$'000)	9,800	10,000	2,502	1,430	8,650	10,000	4,050
Development and directly attributable costs (S$'000)	11,752	13,787	–	2,938	51,634	100	–
Carrying amount as at 31 December 2018 (S$'000)	17,023	20,770	884	2,457	55,094	8,432	4,228
Open market valuation (S$'000)	40,000	38,000	5,500	4,200	90,000	9,722	4,400

SUSTAINABILITY REPORT

BOARD STATEMENT

Sustainability creates business value and delivers positive impacts to the society. The Board considers sustainability issue when formulating the Company's strategies.

Sustainability reporting enables us to build business resilience by identifying and responding to material risks and opportunities. The management, with guidance from the Board, determines the material Economic, Environmental, Social and Governance (EESG) factors concerning our business. The Board oversees the management and monitoring of the material EESG factors.

In the second year of Hafary's sustainability report, we seek to improve on our report by providing additional descriptive and quantitative information on how EESG are being managed to create a sustainable future besides in compliance with the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Rules 711A and 711B and the SGX Sustainability Reporting Guide ("GRI"). The GRI Content Index is contained at the footnote of this Report, indicating the location of the applicable disclosures within the Annual Report.

We have relied on our internal source of information and verification mechanisms to ensure the accuracy of this Report and no external assurance was obtained. We are looking forward in the future for external assurance to be obtained in our sustainability report, making progressive improvement over the coming years.

STAKEHOLDER ENGAGEMENT

As the Group continues to expand its operations, we are committed to review the relevance and significance of key stakeholders on an annual basis.

Our commitments, key factors and engagement channel to stakeholder are explained below:

Stakeholders	Hafary's commitment	Key factors	Engagement channel
Customers	Maximise customers' satisfaction by keeping our product offerings up-to-date and providing a pleasant shopping experience.	• Customer satisfaction • Quality products and services • Project Management, including timeline and execution • Availability of feedback platforms	• Annual customer satisfaction survey • Customer showroom visits • Hafary's owned websites • Hafary's social media platforms e.g. Facebook • Feedback handling through email/phone calls
Employees	Develop our employees to their fullest potential through training and development. Provide them with a safe working environment and fair remuneration packages and benefits.	• Benefits and remuneration • Talent retention and career progression • Training and development • Employee safety and well-being • Anti-corruption and bribery	• On-boarding and orientation • Mobile chart groups • Annual employee opinion survey • Annual Performance appraisals • Internal and external trainings
Local communities	Support to charitable causes through our CSR initiatives.	• Charitable contribution • Volunteering activities	• Corporate Social Responsibility (CSR) programme • Community service events
Shareholders & Investors	Maximise the value of shareholders through strengthening our financial fundamentals.	• Group business strategy and developments • Financial performance • Risk management • Operational efficiency • Regulatory compliance • Corporate governance • Sustainability efforts	• Announcement via SGXNet • Company website • Annual General Meeting
Suppliers	Cultivate and maintain cordial relationships with our suppliers through adherence to trading norms.	• Product quality assurance • Product pipeline	• Supplier meetings, feedback and correspondents

The Group is committed to listening to our stakeholders and we welcome feedback on this report. For enquiries, please contact the Sustainability Team at sustainability@hafary.com.sg.

SUSTAINABILITY REPORT

HAFARY FOCUS & PERFORMANCE

Having identified the materiality factors and our key stakeholders, we have mapped out our sustainability priorities, impact to stakeholders and current year performance in the table below.

FOCUS	IMPACT TO STAKEHOLDERS	2018 PERFORMANCE
Customers • Customer satisfaction • Driving innovation	Applies across to the business operations in Singapore and overseas. To ensure the quality of our product delivery to our customers.	• Customer satisfaction score of 4.34 (2017: 4.15) • Customer privacy
Human Resources • Employee Engagement • Non-Discrimination & Diversity • Workplace safety • Training & education • Anti-corruption	Our people are one of our most valuable assets. Maintaining a safe and healthy workplace for our employees and contractors is critical to Group's continual operation and success.	• Employee's average monthly turnover rate of 1.1% (2018: 2.1%) • No incident of whistle-blowing • Minimal fatalities and workplace accidents reported • No incident of corruption and fraud
Local communities • Charitable contribution • Volunteering activities	The Group is dedicating to being a model corporate citizen who positively contributes and impacts the community.	• Donation made to charities and community organisations • Sponsorship for Polytechnic education
Shareholders & Investors • Economic Performance • Financial Strength • Value-Added Performance	All our internal and external stakeholders look to Hafary to deliver on financial performance, as well as our value-added contribution to the societies and communities we operate	• Group revenue – $120.0 million (2017: $115.8 million) • EBITDA – $21.7 million (2017: $19.5 million) • Profit attributable to owners of the Company – $10.7 million (2017: $8.7 million) • Earnings per share – 2.49 cents (2017: 2.03 cents) • Net assets value per share – 14.9 cents (2017: 13.5 cents) • Final dividend of 0.5 cent per share – totalling approximately $2.1 million (2017: 0.5 cent per share)

Factors or issues that are material to Hafary are reviewed by the management regularly.

CUSTOMERS

Customer Satisfaction

At Hafary, customer satisfaction is an indication of our success as an organisation. The quality of our products matter to our customers and is integral to their satisfaction. We maintain the quality of our products by ensuring that our quality management system is aligned to best practices in the industry as well as by meeting our customers' requirements and applicable regulatory requirements.

All of our customers enjoy easy access to feedback platforms or make direct inquiries through our sales and marketing personnel. Channels of contact include dedicated sales and marketing executives assigned to specific customers, Hafary's showroom and website. Multi-pronged contacts are established through regular visits and dialogue with customers via telephone calls, faxes, emails and formal/informal meetings. At Hafary, we measure our customers' level of engagement with us through an annual Customer Satisfaction Index, the full marks are at 5.

Customer Satisfaction Index

Year	Score
2018	4.34
2017	4.15

Customer Privacy

Hafary protects the privacy and confidentiality of our customers' information. Our Personal Data Protection Policy clearly spells our approach to personal data management, which is publicly accessible on our website at www.hafary.com.sg/investor_relations/policies#PRIVACY_POLICY.

The policy clearly states how Hafary manages the personal data we hold in accordance with the Personal Data Protection Act 2012 and applies to all divisions and organisations in Hafary Holdings Limited.

We respect our customers' personal data, and while we collect personal data for the purposes of providing our services, we do not sell, rent or give away personal data to third parties for commercial purposes. There were no instances on breaches of customer privacy and loss of customer data during the reporting period.

All employees are guided by Hafary's Code of Business Conduct and Ethics, and we take a strict view on any breach of customer confidentiality.

In financial year ended 2018, there were no substantiated complaints concerning breaches of customer privacy.

SUSTAINABILITY REPORT

HUMAN RESOURCES

In building an engaged workforce, Hafary Group is committed to diversifying our workplace and providing equal opportunities to every employee regardless of background.

As a people-centric company, we are concerned with the wellbeing of our employees and implemented a number of staff welfare initiatives, such as annual dinner and festive meals. Our employees are entitled to medical and dental benefits and covered by various forms of insurance, such as group medical insurance and travel insurance (for overseas business trips). To foster an overall pro-family environment, the Group provides our employees with marriage leave, maternity and paternity leaves and an additional day of childcare leave for all foreign employees.

Based on records maintained by our HR Department, further breakdown of our workforce as at the end of reporting period is as follows:

	FY2018		FY2017	
Gender	**Number**	**%**	**Number**	**%**
Male	210	60	196	60
Female	138	40	132	40
Total	348	100	328	100

	FY2018		FY2017	
Region	**Number**	**%**	**Number**	**%**
Singapore	82	24	80	24
Singapore PR	42	12	39	12
Malaysia	88	25	79	24
India	72	21	67	20
China	52	15	51	16
Others	12	3	12	4
Total	348	100	328	100

	FY2018		FY2017	
Length of service	**Number**	**%**	**Number**	**%**
Less than 5 years	220	63	218	66
5 to 10 years	91	26	81	25
Over 10 years	37	11	29	9
Total	348	100	328	100

	FY2018	FY2017
Average monthly turnover rate	1.1%	2.1%

Though most of our employees fall under the category of "less than 5 years of service", more than 30% of employees have been with us for more than 5 years, which illustrates a moderate turnover rate. We continuously strive to further improve talent retention through fair remuneration and opportunities for employees to improve themselves.

Code of Conduct and Ethics

The Company's Code of Conduct for Employees ("the Code"), approved by the Board, establishes the fundamental principles of ethical and professional conduct expected of all employees of the Group in the performance of their duties.

The directors, management and other employees of the Group whose job responsibilities may give rise to conflict of interest are required to complete and submit an annual conflict of interest declaration to the Group's Human Resources Department.

The Company also has in place a whistle-blowing policy. It is available on the Company's website (http://www.hafary.com.sg/investor_relations/policies). All concerns about possible improprieties can be communicated directly to the Company's Audit Committee via whistleblower@hafary.com.sg.

In FY 2018, there were no known incidents of non-compliance with our Code of Business Ethics and Conduct, or whistle blowing cases in Hafary.

Safe & Conducive Workplace

Hafary upholds high standards of a safe and conducive workplace for our tenants, customers and employees alike. The appropriate safety measures and standard operating procedures put in place to all parties are clear what to do in case of emergency, and management teams are well-equipped to respond to such situation.

In order to upskill our employees in the area of workplace health and safety, our employees are trained on the fire safety hazard processes at the office, showroom and warehouse. We hold regular fire drills and evacuation exercises in accordance with ISO14001:2004 standards. Our HR department tracks and report industrial accidents and injuries, and if required, claims will be filed accordingly. All our department heads, supervisors and employees are briefed to directly inform HR department on all accidents and injuries at the workplace.

In addition, our staff attended the WSQ Respond to Fire Incident in Workplace course to improve the knowledge and be equipped with the application skills and knowledge required to effectively respond to fire incidents.

Renewals of required certificates and permits or inspection for the fire safety and lifts at our leasehold properties, are regularly reported and monitored.

Certification and Membership

The Group achieved the following certifications which are valid during the reporting period:

– ISO 9001:2015
– BS OHSAS 18001:2007, an internationally applied British Standard for occupational health and safety management systems
– BizSAFE Star Certification, certified by Workplace Safety and Health Council Singapore

SUSTAINABILITY REPORT

Local Communities

The Group believes in giving back to society. During the reporting period, financial assistance and support are rendered to the following charities and community organisations:

- Thye Hua Kwan Moral Society
- Buddhist Compassion Relief Tzu Chi Foundation (Singapore)
- POSB PAssion Kids Fund
- SGX Bull Charge Charity Run
- SunLove Home

Shareholders & Investor Relations

Since our listing in 2009, Hafary has always upheld transparent and timely communications of its business strategies and performance to all of our stakeholders – investors, analysts, media and shareholders – in line with the highest standards of corporate governance.

The Annual General Meeting (AGM) is an important platform for shareholder communications.

Our investor relations website – https://www.hafary.com.sg/investor_relations/ is updated regularly with comprehensive data comprising SGX announcements, policies, and annual reports.

SUSTAINABILITY REPORT

GRI STANDARD CONTENT INDEX

DISCLOSURE NO.	DISCLOSURE	ANNUAL REPORT SECTION AND PAGE NO.	REMARKS
GENERAL DISCLOSURES (GRI 102: GENERAL DISCLOSURES 2016)			
1. ORGANISATIONAL PROFILE			
102-1	Name of the organisation	Cover page	–
102-2	Activities, brands, products, and services	Corporate profile Pg. 1 Our products Pg. 2 to 9	The Group does not sell products or services that are the subject of stakeholder questions or public debate.
102-3	Location of headquarters	Corporate profile Pg. 1 Corporate information Pg. 31	–
102-4	Location of operations	Group structure Pg. 17 Note 3A of Financial statements Pg. 83	–
102-5	Ownership and legal form	Statistics of shareholdings Pg. 137 and 138	–
102-6	Markets served	Corporate profile Pg. 1 Group structure Pg. 17 Note 4E of Financial statements Pg. 89	–
102-7	Scale of the organisation	Corporate profile Pg. 1 Sustainability report Pg. 25 to 28 Financial statements Pg. 56 to 136 Statistics of shareholdings Pg. 137 to 138	–
102-8	Information on employees and other workers	Sustainability report Pg. 25 to 28	–
102-9	Supply chain	Corporate profile Pg. 1	
102-10	Significant changes to the organisation and its supply chain	CEO's Statement Pg. 10 and 11 Statistics of shareholdings Pg. 137 and 138	There is no significant change to the supply chain that can cause or contribute to significant economic, environmental and social impacts.

GRI STANDARD CONTENT INDEX

DISCLOSURE NO.	DISCLOSURE	ANNUAL REPORT SECTION AND PAGE NO.	REMARKS
102-11	Precautionary Principle or approach	Corporate governance statement Pg. 32 to 55	Please refer to 'Corporate governance statement' for the Company's approach to risk management. The Company's activities do not pose threats of serious or irreversible damage to the environment. The precautionary approach under Principal 15 of 'The Rio Declaration on Environment and Development' is not adopted.
102-12	External initiatives	Sustainability report Pg. 28	–
102-13	Membership of associations	Sustainability report Pg. 27	–
2. STRATEGY			
102-14	Statement from senior decision-maker	CEO's statement Pg. 10 and 11 Sustainability report Pg. 25	–
3. ETHICS AND INTEGRITY			
102-16	Values, principles, standards, and norms of behavior	Sustainability report Pg. 25 to 28	
4. GOVERNANCE			
102-18	Governance structure	Corporate governance statement Pg. 32 to 55 Sustainability report Pg. 25 to 28	–

SUSTAINABILITY
REPORT

GRI STANDARD CONTENT INDEX

DISCLOSURE NO.	DISCLOSURE	ANNUAL REPORT SECTION AND PAGE NO.	REMARKS
5. STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	Sustainability report Pg. 25 and 26	–
102-41	Collective bargaining agreements	–	No employee of the Group is covered by collective bargaining agreements
102-42	Identifying and selecting stakeholders	Sustainability report Pg. 25 and 26	–
102-43	Approach to stakeholder engagement	Sustainability report Pg. 25 and 26	–
102-44	Key topics and concerns raised	CEO's statement Pg. 10 and 11 Sustainability report Pg. 26	–
6. REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements	Financial statements Pg. 99 to 106	–
102-46	Define report content and topic Boundaries	Sustainability report Pg. 25 to 28	–
102-47	List of material topics	Sustainability report Pg. 25 to 28	–
102-48	Restatements of information	–	No change in the preparation of sustainability report compare to previous financial year.

GRI STANDARD CONTENT INDEX

DISCLOSURE NO.	DISCLOSURE	ANNUAL REPORT SECTION AND PAGE NO.	REMARKS
102-49	Changes in reporting	–	No change in the preparation of sustainability report compare to previous financial year.
102-50	Reporting period	Sustainability report Pg. 25	–
102-51	Date of most recent report	–	19 March 2018
102-52	Reporting cycle	Sustainability report Pg. 25	–
102-53	Contact point for questions regarding the report	Sustainability report Pg. 25	–
102-54	Claims of reporting in accordance with the GRI Standards	Sustainability report Pg. 25	–
102-55	GRI content index	Sustainability report Pg. 29 and 30	–
102-56	External assurance	Sustainability report Pg. 25 to 28	This report is not externally assured.
MATERIAL TOPICS: 5 KEY SUSTAINABILITY ISSUES (GRI 103: MANAGEMENT APPROACH 2016)			
103-1	Explanation of the material topic and its Boundary	Sustainability report Pg. 25 to 28	–
103-2	The management approach and its components	Sustainability report Pg. 25 to 28	–
103-3	Evaluation of management approach	Sustainability report Pg. 25 to 28	–

CORPORATE INFORMATION

BOARD OF DIRECTORS

ONG BENG CHYE
Independent Non-Executive Chairman

LOW KOK ANN
Executive Director and CEO

DATUK EDWARD LEE MING FOO, JP
Non-Independent Non-Executive Director

LOW SEE CHING
Non-Independent Non-Executive Director

CHEAH YEE LENG
Non-Independent Non-Executive Director

YONG TEAK JAN @ YONG TECK JAN
Non-Independent Non-Executive Director

TERRANCE TAN KONG HWA
Independent Director

CHOW WEN KWAN MARCUS
Independent Director

AUDIT COMMITTEE

ONG BENG CHYE | Chairman
TERRANCE TAN KONG HWA
CHOW WEN KWAN MARCUS

NOMINATING COMMITTEE

TERRANCE TAN KONG HWA | Chairman
ONG BENG CHYE
CHOW WEN KWAN MARCUS

REMUNERATION COMMITTEE

CHOW WEN KWAN MARCUS | Chairman
TERRANCE TAN KONG HWA
ONG BENG CHYE

COMPANY SECRETARY

TAY ENG KIAT JACKSON

REGISTERED OFFICE/HEADQUARTERS

105 Eunos Avenue 3 | Hafary Centre | Singapore 409836
Tel: (65) 6383 2314 | Fax: (65) 6253 4496

SHARE REGISTRAR

BOARDROOM CORPORATE & ADVISORY SERVICES PTE. LTD.
50 Raffles Place #32-01 | Singapore Land Tower | Singapore 048623

SHARE LISTING

HAFARY HOLDINGS LIMITED was incorporated on 6 October 2009 and listed in Catalist on 7 December 2009. The Company's listing was upgraded to the SGX Mainboard with effect from 18 June 2013.
Stock code: 5VS (SGX) HAFA.SP (Bloomberg) HFRY.SI (Reuters)

INDEPENDENT AUDITOR

RSM CHIO LIM LLP
8 Wilkie Road | #03-08 Wilkie Edge | Singapore 228095
Partner-in-charge: Pang Hui Ting
Effective from reporting year ended 31 December 2016

INTERNAL AUDITOR

BDO LLP
600 North Bridge Road | #23-01 Parkview Square | Singapore 188778

LEGAL ADVISORS

TSMP LAW CORPORATION
6 Battery Road, Level 41 | Singapore 049909

PRINCIPAL BANKERS

AUSTRALIA AND NEW ZEALAND BANKING GROUP LTD
DBS BANK LIMITED
MALAYAN BANKING BERHAD
RHB BANK BERHAD
UNITED OVERSEAS BANK LIMITED

CORPORATE
GOVERNANCE STATEMENT

The Board of Directors (the "**Board**") of Hafary Holdings Limited (the "**Company**") is committed to setting and maintaining high standards of corporate governance within the Company and its subsidiaries (the "**Group**"). This report describes the corporate governance framework and practices of the Company with specific reference to the principles and guidelines of the Code of Corporate Governance 2012 (the "**Code**").

With the issuance of the revised Code of Corporate Governance 2018 on 6 August 2018 (the "2018 Code") which will take effect for annual reports covering financial years commencing from 1 January 2019, the Group will review and implement measure to comply with the 2018 Code, where appropriate.

▶ **Principle 1 of the Code: THE BOARD'S CONDUCT OF AFFAIRS**

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

▶ Guideline 1.1 of the Code: Role of the Board

The Board is made up of the following members:

Mr Ong Beng Chye	Independent Non-Executive Chairman
Mr Low Kok Ann	Executive Director and Chief Executive Officer ("CEO" or the "Executive Director")
Datuk Edward Lee Ming Foo, JP	Non-Independent Non-Executive Director
Mr Low See Ching	Non-Independent Non-Executive Director
Ms Cheah Yee Leng	Non-Independent Non-Executive Director
Mr Yong Teak Jan @ Yong Teck Jan	Non-Independent Non-Executive Director
Mr Terrance Tan Kong Hwa	Independent Director
Mr Chow Wen Kwan Marcus	Independent Director

The principal duties of the Board, apart from its statutory responsibilities, are:

(a) Providing entrepreneurial leadership, setting the strategic direction and overall corporate policies (including ethical standards) of the Group;

(b) Overseeing the business and affairs of the Group, establishing the strategies and financial objectives to be implemented by the management and monitoring the performance of the management;

(c) Ensuring the adequacy of internal controls, risk management processes and financial reporting and compliance;

(d) Monitoring financial performance, including approval of the full year and quarterly financial reports of the Group;

(e) Approving corporate actions, major investment and funding decisions of the Group; and

(f) Identifying key stakeholders and balancing the demands of the business with those of the key stakeholders and ensuring the obligations to key stakeholders (including shareholders) are met.

▶ Guideline 1.2 of the Code: Directors to discharge duties and responsibilities in the interests of the Company

At least one-third of the Board is made up of independent directors who have the appropriate core competencies and diversity of experience to enable them, in their collective wisdom, to contribute effectively to the Company. All directors are expected, in the course of carrying out their duties, to act in good faith, provide insights and discharge their duties and responsibilities in the interests of the Group.

CORPORATE
GOVERNANCE STATEMENT

The Board oversees the management of the Group. It focuses on strategies and policies, with particular attention paid to growth and financial performance. It delegates the formulation of business policies and the day-to-day management of the Group to the Executive Director and the management.

While the Board remains responsible for providing oversight in the preparation and presentation of the financial statements, it has delegated to the management the task of ensuring that the financial statements are drawn up and presented in compliance with the relevant provisions of the Singapore Companies' Act, Chapter 50 and the Singapore Financial Reporting Standards (International).

Board Committees, namely Audit Committee ("AC"), Nominating Committee ("NC") and Remuneration Committee ("RC") and Plan Committee have been constituted to assist the Board in the discharge of specific responsibilities (the "Board Committees"). The Board Committees review or make recommendations to the Board on matters within their specific terms of reference.

▶ Guideline 1.3 of the Code: Disclosure on the delegation of authority by the Board

Board meetings are conducted on a quarterly basis and ad-hoc meetings are held whenever the Board's guidance or approval is required. Dates of Board, Board Committee and annual general meetings are scheduled in advance in consultation with the directors to assist them in planning their attendance. Pursuant to the Company's Constitution, a director who is unable to attend a Board meeting in person can still participate in the meeting via telephone conference, video conference or other similar communication.

▶ Guideline 1.4 of the Code: Board to meet regularly

Attendance of the directors at scheduled meetings of the Board and Board Committees during the financial year ended 31 December 2018 ("FY2018") is as follows:

		Board Committees		
	Board	**AC**	**NC**	**RC**
Number of scheduled meetings held	4	4	1	1
Name of directors				
Mr Ong Beng Chye	4	4	1	1
Mr Low Kok Ann	4	4*	1*	1*
Mr Low See Ching	4	4*	1*	1*
Datuk Edward Lee Ming Foo, JP	4	4*	1*	1*
Ms Cheah Yee Leng	4	4*	1*	1*
Mr Yong Teak Jan @ Yong Teck Jan	4	4*	1*	1*
Mr Terrance Tan Kong Hwa	4	4	1	1
Mr Chow Wen Kwan Marcus	4	4	1	1

Legend:

* Attended by invitation

Important matters concerning the Group can also be put to the Board and Board Committees for decision by way of written resolutions.

CORPORATE
GOVERNANCE STATEMENT

▶ Guideline 1.5 of the Code: Matters requiring Board's approval

The Company has adopted internal guidelines which set forth matters that are reserved for the Board's decision. Matters which are specifically reserved for the Board's decision are:

(a) Appointment of directors to the Board and senior management staff;

(b) Major investments decisions, including new investments and any increase in existing investments in businesses and the subsidiaries of the Group;

(c) Any divestments by any of the Group's subsidiaries;

(d) Major funding decisions, including share issuances;

(e) Interim and final dividends and other returns to shareholders;

(f) Commitments to borrowing facilities from banks and financial institutions by the Company;

(g) Interested person transactions;

(h) Acquisitions and disposal of assets exceeding the limits set by the Board; and

(i) Expenditures exceeding the limits set by the Board.

The Group also has internal guidelines which set out, among others, the authorisation limits granted to the management for approval of capital and operating expenditures.

▶ Guideline 1.6 of the Code: Regular and appropriate training for directors

The directors are informed via electronic mail and briefed during Board meetings in the event of the passing of new laws and regulations that may apply to the Group. The directors are also informed and briefed in the event of any revisions to the applicable regulations. Changes to the financial reporting standards are monitored closely by the management.

The details of updates and training programmes attended by the directors during FY2018 include:

(a) The external auditor, RSM Chio Lim LLP, briefed the AC and the Board on the developments in the Singapore Financial Reporting Standards (International);

(b) The outsourced secretarial agent, Boardroom Corporate & Advisory Services Pte. Ltd., briefed the AC and the Board on updates on the Listing Manual of the SGX-ST and Companies' Act;

(c) The management updates the Board at each Board meeting on the business and strategic developments pertaining to the Group's business; and

(d) Seminars such as Financial Reporting Standards Annual Update 2018 organised by ISCA, SID Directors' Conference 2018 and Audit Committee Seminar 2018 organised by ACRA, SGX and SID.

Newly-appointed directors will be briefed on the business and organisation structure of the Group and its strategic plans and objectives. The orientation for new directors includes visits to the Group's key premises to familiarise themselves with the Company's operations. Such visits also allow new directors to get acquainted with senior management, thereby facilitating interaction with the Board and independent access to senior management. Appropriate training shall be arranged upon request by newly-appointed directors to ensure that newly-appointed directors are fully aware of their responsibilities and obligations as directors.

CORPORATE
GOVERNANCE STATEMENT

The Executive Director is appointed to the Board by way of service agreement setting out the scope of their duties and obligations. The Company provides formal letters setting out the duties and responsibilities of directors to newly-appointed directors.

▶ Guideline 1.7 of the Code: Formal letter of appointment to directors setting out their duties and responsibilities

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

▶ Principle 2 of the Code: BOARD COMPOSITION AND GUIDANCE

There is a strong independent element on the Board with independent directors constituting at least one-third of the Board. Currently, the Board consists of eight directors of whom three are independent.

▶ Guideline 2.1 and 2.2 of the Code:
Strong and independent element on the Board

The Company is not required to have at least half the Board as independent directors or to have a lead independent director as:

(a) The Chairman and CEO are not the same person;

(b) The Chairman and CEO are not immediate family members;

(c) The Chairman is not part of the management team; and

(d) The Chairman is independent.

The criterion for independence is based on the definition given in the Code. According to the Code, an "independent" director is one who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the Company.

▶ Guideline 2.3 and 2.4 of the Code:
Independence of directors

The Independent Directors were first appointed on 10 November 2009. Each Independent Director was required to complete a confirmation of independence, drawn up according to the guidelines stated in the Code, to confirm his independence. He shall disclose to the Board any relationships or circumstances which are likely to affect, or could appear to affect, his judgement. The independence of each director is reviewed annually by NC. Based on the annual review of the independence of the Independent Directors according to the guidelines stated in the Code, the NC ascertained that all Independent Directors are independent.

As at the end of FY2018, Mr Chow Wen Kwan Marcus, Mr Ong Beng Chye and Mr Terrance Tan Kong Hwa have served on the Board beyond nine years from the date of their first appointment. The NC and the Board have conducted a rigorous review of their independence and contributions to the Board to determine if they still remained independent and carry out their duties objectively. Under such rigorous review, each Independent Director has confirmed that neither he nor any of his immediate family has any relationship or business dealings with a controlling shareholder, director or key management personnel or their associates that would give rise to a conflict of interest or impairment of the Independent Director's independence. The NC and the Board were of the view that Mr Chow Wen Kwan Marcus, Mr Ong Beng Chye and Mr Terrance Tan Kong Hwa possess valuable experience and knowledge, as well as maintained their objectivity and independence at all times in the discharge of each of their duties as Director of the Company.

All Independent Directors are independent of the management and 10% shareholders.

CORPORATE
GOVERNANCE STATEMENT

The Board has examined its size and is of the view that it is an appropriate size for efficient and effective decision-making, taking into account the scope and nature of the operations of the Company. The NC is of the view that no individual or small group of individuals dominate the Board's decision-making process.

▶ Guideline 2.5 of the Code: Composition and size of the Board

The Company has a good balance of directors with a wide range of skills, experience and qualities in the fields of operations, management, financial, legal and accounting.

Each director has been appointed on the strength of his calibre, experience, grasp of corporate strategy and potential to contribute to the Company and its businesses. Each director brings valuable insights from different perspectives, such as strategic planning, management, finance, accounting and legal, vital to the strategic interests of the Company. Profiles of the directors are found in the "Board of Directors" section of the Annual Report. The Board considers that the current composition of the Board encompasses an appropriate balance and diversity of skills, experience, gender, knowledge and competencies to provide the management with a diverse and objective perspective on issues so as to lead and govern the Company effectively.

▶ Guideline 2.6 of the Code: Diversity of skills and core competencies of the Board and Board Committees

The Non-Executive Directors and Independent Directors provide advice on strategic matters and review the performance of the management in meeting agreed financial and non-financial targets and monitor reporting of performance.

To facilitate a more effective check on the management, the Independent Directors meet at least once a year with the internal and external auditor without the presence of the management. Where necessary, the Company co-ordinates informal meeting sessions for Non-Executive Directors and Independent Directors to meet without the presence of the management.

▶ Guideline 2.7 and 2.8 of the Code:
Role of non-executive directors and non-executive directors to meet regularly

There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business to ensure a balance of power and authority.

▶ Principle 3 of the Code: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and CEO are separate persons and not related to each other.

▶ Guideline 3.1 of the Code: Chairman and CEO should be separate persons

The Independent Non-Executive Chairman, Mr Ong Beng Chye, ensures that corporate information is adequately disseminated to all directors in a timely manner to facilitate the effective contribution of all directors. He promotes a culture of openness and debate at the Board and ensures that adequate time is allocated for discussion of all strategic issues. The Independent Non-Executive Chairman is assisted by the Board Committees and the internal auditor who report to the Audit Committee in ensuring compliance with the Company's guidelines on corporate governance.

▶ Guideline 3.2 of the Code: Role of the Chairman

The CEO, Mr Low Kok Ann, is responsible for the overall management, operations and charting the corporate and strategic direction, including our sales, marketing and procurement strategies.

CORPORATE GOVERNANCE STATEMENT

The Company's Lead Independent Director is Mr Ong Beng Chye.

The Independent Non-Executive Chairman coordinates sessions for the Independent Directors to meet without the presence of other directors, if required.

▶ Guideline 3.3 and 3.4 of the Code: Appointment of lead Independent director

There should be a formal and transparent process for the appointment and reappointment of directors to the Board.

▶ **Principle 4 of the Code: BOARD MEMBERSHIP**

The NC comprises Mr Terrance Tan Kong Hwa, Mr Ong Beng Chye and Mr Chow Wen Kwan Marcus, all of whom are non-executive and independent directors. The Chairman of the NC is Mr Terrance Tan Kong Hwa.

▶ Guideline 4.1 and 4.2 of the Code: NC to recommend all Board appointments and on relevant matters

The key terms of reference of the NC are as follows:

(a) Make recommendations to the Board on the appointment and re-appointment of the directors having regard to each director's competencies, commitment, contribution and performance;

(b) Decide how the Board's performance is to be evaluated and propose objective performance criteria, subject to the approval of the Board, which addresses how the Board has to enhance long-term shareholders' value;

(c) Assess the effectiveness of the Board and its Board Committees as a whole and the contribution by the Chairman and each individual director to the effectiveness of the Board;

(d) Decide whether each director is able to and has been adequately carrying out his duties as director of the Company;

(e) Make recommendations to the Board on the training and professional development programme for the Board;

(f) Determine annually whether or not a director is independent; and

(g) Ensure that all Directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years.

Pursuant to Article 104 of the Company's Constitution, at least one-third of the Company's directors are required to retire from office at every Annual General Meeting ("**AGM**") of the Company. Pursuant to Rule 720(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") which effective from 1 January 2019, every Director must retire from office at least once every three years and are eligible for re-election.

The NC has recommended that the following directors be put forward for re-election at the forthcoming AGM pursuant to Article 104 of the Company's Constitution and Rule 720(5) of the Listing Manual of the SGX-ST:

Mr Low See Ching
Mr Terrance Tan Kong Hwa

The NC has also recommended that Ms Cheah Yee Leng be put forward for re-appointment at the forthcoming AGM pursuant to Rule 720(5) of the Listing Manual of the SGX-ST.

CORPORATE
GOVERNANCE STATEMENT

The Board has accepted the NC's recommendations of the above re-elections and re-appointment of Directors and Mr Low See Ching, Mr Terrance Tan Kong Hwa and Ms Cheah Yee Leng, being eligible have offered themselves for re-election and re-appointment respectively at the forthcoming AGM.

Please refer to "Board of Directors" section of the Annual Report for details and information of the above directors.

The NC is in charged with the responsibility of determining annually whether or not a director is independent. Each Independent Director is required to complete a confirmation of independence, drawn up according to the guidelines stated in the Code, to confirm his independence. He shall disclose to the Board any relationships or circumstances which are likely to affect, or could appear to affect, his judgement. Based on the annual review of the independence of the Independent Directors according to the guidelines stated in the Code, the NC ascertained that all independent directors are independent.

▶ Guideline 4.3 of the Code: Determination of directors' Independence

When a director has multiple board representations, the NC also considers whether or not the director is able to and has adequately carried out his duties as a director of the Company.

▶ Guideline 4.4 of the Code: Multiple board representation

The NC believes that putting a maximum limit on the number of directorships a director can hold is arbitrary, given that time requirements for each vary, and thus should not be prescriptive.

The NC is satisfied that sufficient time and attention were given by the directors to the affairs of the Company during FY2018, notwithstanding that they hold directorships in other private and listed companies and have other principal commitments, and will continue to do so in FY2019.

The Board of the Company does not comprise any alternate director. No alternate director is appointed throughout the year.

▶ Guideline 4.5 of the Code: Avoidance of appointment of alternate directors

When the need for a new director to replace a retiring director arises, or where it is considered that the Board would benefit from the services of a new director with particular skills, the NC, in consultation with the Board, determines the selection criteria.

▶ Guideline 4.6 of the Code: Description of process for selection, appointment and re-appointment of directors to be disclosed

Candidates would first be sourced through an extensive network of contacts and identified based on the needs of the Group and relevant expertise and experience required. The NC may engage recruitment consultants to undertake research on or assess candidates for new position on the Board, or to engage such other independent experts, if necessary. After the Board has interviewed the candidates, the NC would further shortlist and recommend the candidates for appointment to the Board. The Board has the final discretion in appointing new directors.

The NC recommends the appointment and re-election of directors to the Board for approval based on the following criteria:

(a) Expertise and experience of the candidate and whether they have discharged their duties adequately as directors of the Company, officers of other companies and/or professionals in the area of expertise;

CORPORATE GOVERNANCE STATEMENT

(b) Independence of the candidate (for Independent Directors);

(c) Appointment or re-appointment will not result in non-compliance with any composition requirements for the Board and Board Committees; and

(d) Whether the candidate is a fit and proper person in accordance with Monetary Authority of Singapore's ("MAS") fit and proper guidelines, which broadly take into account the candidate's honesty, integrity and reputation; his competence and capability; and financial soundness.

Each member of the NC shall abstain from voting on any resolution in respect of the assessment of his performance or re-nomination as a director.

Key information in respect of the directors' academic and professional qualifications, date of first appointment as a director, date of last re-appointment as a director, present directorships or chairmanship and those held over the preceding three years in other listed companies and other principal commitments are set out in the "Board of Directors" section of the Annual Report. In addition, information on shareholdings in the Company held by each director is set out in the Directors' Report in "Financial Statements" section of the Annual Report.

▶ Guideline 4.7 of the Code: Key information regarding directors

There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

▶ Principle 5 of the Code: BOARD PERFORMANCE

The NC and the Chairman of the Board have implemented a self-assessment process that requires each director to assess the performance of the Board as a whole. These assessments are carried out by the NC at the end of each financial year to identify strengths and shortcomings and thereby, make recommendations to strengthen the effectiveness of the Board as a whole.

▶ Guideline 5.1, 5.2 and 5.3 of the Code: Assessment of effectiveness of the Board and Board committees and assessing the contribution by the Chairman and each director

The NC assesses the Board's effectiveness as a whole by completing a Board Performance Evaluation Checklist. The checklist takes into consideration factors such as the Board and Board Committees' structure, conduct of meetings, risk management and internal control and the Board's relationship with the management. The NC also assesses the Board's performance based on a set of quantitative criteria and financial performance indicators as well as share price performance.

The NC has reviewed the overall performance of the Board in terms of its role and responsibilities and the conduct of its affairs as a whole for the financial year. It is of the view that the performance of the Board as a whole has been satisfactory.

The NC met once and conducted its assessment in respect of FY2018.

CORPORATE
GOVERNANCE STATEMENT

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

▶ **Principle 6 of the Code: ACCESS TO INFORMATION**

The management recognises that the flow of complete, adequate and timely information on an on-going basis to the Board is essential to the Board's effective and efficient discharge of its duties.

▶ Guideline 6.1 and 6.2 of the Code: Complete, adequate and timely information for directors to make informed decisions; Independent access to the management by the Board

During FY2018, the management has informed the Board of all material events as and when they occurred and sought advice and/or approval from the Board on major transactions before they are entered into.

The management has provided the Board in advance with quarterly management accounts, annual budget and relevant background information and materials relating to the matters that were discussed at Board meetings. This enables the discussion during the meetings to focus on questions that directors may have. Any additional materials or information requested by the directors is promptly furnished. During the Board meetings, management staff who are able to explain and provide insights to the matters to be discussed are invited to make the appropriate presentations and answer any queries from the directors.

Directors have separate and independent access to the management via telephone, email and face-to-face meetings.

Directors have separate and independent access to the Company Secretary. The role of the Company Secretary is clearly defined and includes responsibility for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The responsibilities of the Company Secretary include:

▶ Guideline 6.3 of the Code: Separate and independent access to the company secretary

(a) Administers, attends and prepares minutes of all Board and Board Committees meetings;

(b) Assists the Board in ensuring that the Company complies with the relevant requirements of the Companies' Act and Listing Rules;

(c) Advises the Board on all corporate governance matters;

(d) Assists the Independent Non-Executive Chairman in ensuring good information flows within the Board, Board Committees and between the management and the independent directors; and

(e) Communication channel between the Company and SGX-ST.

The Company Secretary attends all Board and Board Committees meetings and is responsible to ensure that Board procedures are followed.

The appointment and removal of the Company Secretary are subject to the approval of the Board.

▶ Guideline 6.4 of the Code: Appointment and removal of the company secretary

CORPORATE
GOVERNANCE STATEMENT

The Board takes independent professional advice as and when necessary concerning any aspect of the Group's operations or undertakings in order to discharge its responsibilities effectively. Any cost of obtaining professional advice will be borne by the Company.

▶ Guideline 6.5 of the Code: Procedure for Board to take independent professional advice

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

▶ **Principle 7 of the Code: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES**

The RC comprises Mr Chow Wen Kwan Marcus, Mr Ong Beng Chye and Mr Terrance Tan Kong Hwa, all of whom are non-executive and independent directors. The Chairman of the RC is Mr Chow Wen Kwan Marcus.

▶ Guideline 7.1 and 7.2 of the Code: RC to consist of entirely non-executive directors; RC to recommend remuneration framework and packages

The key terms of reference of the RC are as follows:

(a) Review and recommend to the Board a general framework of remuneration for the Board and key management personnel;

(b) Review and recommend to the Board the specific remuneration packages for each director and key management personnel;

(c) Review and recommend to the Board the terms of renewal of the service agreements of Executive Directors;

(d) Determine the appropriateness of the remuneration of non-executive directors taking into consideration their effort, time spent, responsibilities and level of contribution;

(e) Administer the Hafary Performance Share Plan and any other share option scheme established from time to time for the Directors and the management; and

(f) Consider the disclosure requirements for directors' and key management personnel's remuneration as required by the SGX-ST and according to the Code.

The recommendations of the RC shall be submitted for endorsement by the Board. The RC covers all aspects of remuneration, including directors' fees, salaries, allowances, bonuses, grant of shares and share options and benefits-in-kind. Each RC member shall abstain from voting on any resolutions in respect of his remuneration package.

The RC members are familiar with management compensation matters as they manage their own businesses and/or are holding directorships in other listed companies. If necessary, the RC may seek professional advice on remuneration of all directors.

▶ Guideline 7.3 of the Code: RC to seek expert advice

The Non-Executive Directors and Independent Directors do not have service agreements with the Company. The Non-Executive Directors and Independent Directors received directors' fees which are recommended by the Board for approval at the Company's AGM.

▶ Guideline 7.4 of the Code: RC to review and ensure that contracts of service contain fair and reasonable termination clauses which are not overly generous

CORPORATE
GOVERNANCE STATEMENT

The Executive Director does not receive director's fees and is paid based on his service agreement with the Company. In setting the remuneration packages of the Executive Director, the Company takes into account the performance of the Group and that of the Executive Director which is aligned with long term interest of the Group. The RC has reviewed and approved the service agreement of the Executive Director which is valid for 3 years. The current service agreement is entered into with the Company on 1 February 2017. Service tenure is not excessively long and there are no onerous termination clauses.

Key management personnel's remuneration is set in accordance with a remuneration framework comprising basic salary (including a variable bonus and benefits-in-kind).

▶ Principle 8 of the Code: LEVEL AND MIX OF REMUNERATION

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

▶ Guideline 8.1 of the Code: Executive directors and key management personnel's remuneration to be linked to corporate and individual performance and aligned with interests of shareholders

Remuneration of Executive Director and key management personnel comprises a fixed component and a variable component. The fixed component comprises basic salary plus other fixed allowances. The variable component which comprises bonuses is linked to the performance of the Company and the individual. In FY2018, variable or performance related income/bonus made up 19% to 64% of the total remuneration of the Executive Director and each key management personnel. The remuneration package is designed to enable the Company to stay competitive and allows the Company to better align executive compensation with shareholder value creation.

In setting remuneration packages, the RC ensures that the directors are adequately but not excessively remunerated as compared to the market employment conditions. The RC also ascertained that Independent Directors are not overly-compensated to the extent that their independence may be compromised.

▶ Guideline 8.2 of the Code: Long-term incentive schemes are encouraged

Unless otherwise defined, all terms not defined herein shall be as defined in the rules of the Hafary Performance Share Plan ("Hafary PSP").

▶ Guideline 9.5 of the Code: Details of employee share schemes

The Hafary PSP is intended to give the Company greater flexibility in tailoring reward and incentive packages for its directors and employees, the ("Participants") and aligning their interest with those of the Company's shareholders.

Awards granted under the Hafary PSP will be principally (i) performance-based and (ii) loyalty-based. The performance targets to be set are intended to be broad-based and shall take into account both the medium- term corporate objectives of the Group and the individual performance of the Participant. The medium-term corporate objectives include market competitiveness, quality of returns, business growth and productivity growth. The performance targets set are based on medium-term corporate objectives, which include revenue growth, growth in earnings and return on investment. Additionally, the Participant's length of service with the Group, achievement of past performance targets, extent of value-adding to the Group's performance and development and overall enhancement to Shareholder value, inter alia, will be taken into account. The Hafary PSP may also have an extended vesting period, that is, the Awards will also incorporate a time-based service condition, to encourage Participants to continue serving the Group beyond the achievement date of the pre- determined performance targets.

CORPORATE GOVERNANCE STATEMENT

The Hafary PSP was approved by the shareholders of the Company at the AGM held on 25 October 2013, and is administered by the Plan Committee, comprising the Remuneration Committee and the CEO authorised and appointed by the Board. The Hafary PSP shall be in force at the discretion of the Plan Committee, subject to a maximum period of 10 years commencing 25 October 2013.

Members of the Plan Committee:

Mr Chow Wen Kwan Marcus	Chairman
Mr Ong Beng Chye	Member
Mr Terrance Tan Kong Hwa	Member
Mr Low Kok Ann	Member

Participants in the Hafary PSP will receive awards which represent the right to receive fully paid shares of the Company free of charge, upon satisfying the Performance Condition (determined at the discretion of the Plan Committee) and provided that the relevant Participant has continued to be a Group Executive from the Award Date up to the end of the Performance Period. Employees who are Controlling Shareholders or Associates of Controlling Shareholders shall not participate in the Hafary PSP.

During this reporting year, no performance shares were granted, vested and cancelled under the Hafary PSP.

The number of performance shares vested at the vesting date are dependent on the level of achievement against the pre-set performance conditions and targets.

As at the date of this Annual Report, no Awards were released and no Awards were granted to the Independent Directors of the Company. No shares were granted to any Directors of the Company, controlling shareholders and their associates pursuant to the vesting of the Awards under the Hafary PSP. No employee in the Group has received shares which, in aggregate, represent 5% or more of the aggregate of the total number of shares available under the Hafary PSP.

▶ Guideline 8.3 of the Code: Remuneration of non-executive directors dependent on contribution, effort, time spent and responsibilities

None of the Non-Executive Directors and Independent Directors have service agreements with the Company or receive any remuneration from the Company. They are paid directors' fees, which are determined by the Board based on their contribution, effort, time spent and responsibilities. The directors' fees are subject to approval by the Shareholders at each AGM. Currently, the Company does not have any scheme to encourage Non-Executive Directors and Independent Directors to hold shares in the Company.

▶ Guideline 8.4 of the Code: Contractual provisions to allow the Company to reclaim incentive components of remuneration in exceptional circumstances

The service agreement of the Executive Director contains clauses to allow the Company to reclaim variable components of remuneration in exceptional circumstances.

CORPORATE
GOVERNANCE STATEMENT

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

▶ Principle 9 of the Code: DISCLOSURE ON REMUNERATION

The Board has not included a separate annual remuneration report to shareholders in the Annual Report on the remuneration of directors and the key management personnel (who are not directors or the CEO of the Company). The Board is of the view that matters which are required to be disclosed in such annual remuneration report have already been sufficiently disclosed in this Corporate Governance Report and in the financial statements of the Company.

▶ Guideline 9.1 and 9.5 of the Code:
Annual remuneration report

There is no termination, retirement and post-employment benefits granted to directors, the CEO or the top five key management personnel.

In view of confidentiality of the remuneration policies of the Company and the competitive pressures in the talent market, the Board is of the opinion that it is in the best interests of the Group to disclose the remuneration of its directors and key management personnel in salary bands.

▶ Guideline 9.2 and 9.3 of the Code:
Remuneration of directors and top five key management personnel

A breakdown showing the band and mix of each director's remuneration for the FY2018 is as follows:

Remuneration band and name of director	Directors' fee (%)	Salary, CPF and allowance (%)	Variable or performance-related bonus (%)	Total (%)
S$500,000 to S$749,999				
Mr Low Kok Ann	–	36	64	100
Below S$250,000				
Datuk Edward Lee Ming Foo, JP	100	–	–	100
Mr Low See Ching	100	–	–	100
Ms Cheah Yee Leng	100	–	–	100
Mr Yong Teak Jan @ Yong Teck Jan	100	–	–	100
Mr Ong Beng Chye	100	–	–	100
Mr Terrance Tan Kong Hwa	100	–	–	100
Mr Chow Wen Kwan Marcus	100	–	–	100

CORPORATE GOVERNANCE STATEMENT

A breakdown showing the band and mix of remuneration of each top 5 key management personnel's (who are not directors or CEO of the Company) for FY2018 is as follows:

Remuneration band and name of key management personnel	Fixed salary (%)	Variable or performance-related bonus (%)	Total (%)
S$250,000 to S$499,999			
Mr Tay Eng Kiat Jackson	73	27	100
Mr Goh Keng Boon Frank	81	19	100
Below S$250,000			
Mr Koh Yew Seng Mike	75	25	100
Mr Cheong Ching Hing Simon	75	25	100
Mr Tay Chye Heng Stephen	77	23	100

The total remuneration paid to the top five key management personnel (who are not directors or the CEO of the Company) for FY2018 was S$1,150,000.

"Immediate family member" means spouse, child, adopted child, step-child, brother, sister and parent. The Company and its subsidiaries did not have any employees who were an immediate family member of a director or the CEO and whose remuneration exceeded S$50,000 during FY2018.

▶ Guideline 9.4 of the Code: Disclosure of remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceeds $50,000

Short-term incentive of the Executive Director and key management personnel takes the form of annual variable bonus payment and is linked to the performance of the Company and the individual.

▶ Guideline 9.6 of the Code: Disclosure of information on link between remuneration paid to executive directors and key management personnel, and performance

For the Executive Director, the amount of variable bonus payment (i.e. performance bonus) for a particular financial period is dependent on the amount of the Group's profit before income tax achieved as set out below:

Profit before income tax ("PBT")	CEO
Up to S$3 million	1.5%
Above S$3 million and up to S$5 million	S$45,000 plus 3.0% of PBT in excess of S$3 million
Above S$5 million	S$105,000 plus 4.5% of PBT in excess of S$5 million

The Board is of the view that this quantitative criterion is able to align the Executive Director's interests with shareholders' interests.

CORPORATE
GOVERNANCE STATEMENT

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

▶ **Principle 10 of the Code: ACCOUNTABILITY**

The Board is accountable to the shareholders for the Company's performance and is mindful of its obligations to furnish timely information and to ensure full disclosure of material information to Shareholders in compliance with statutory requirements and the Listing Manual of SGX-ST.

The Board provides the Shareholders with a balanced and comprehensive explanation and analysis of the Company's performance, position and prospects through the quarterly and full year results announcements. This responsibility extends to reports to regulators (if required). Financial results, material corporate developments and other price-sensitive information are disseminated timely to shareholders through announcements via SGXNet, press releases and the Company's website. The Board reviews and approves, on the recommendation of the Audit Committee (if necessary), the financial reports and other information before their release. The Company's Annual Report is available on request and accessible on the Company's website.

▶ Guideline 10.1 of the Code: Board's responsibility to provide balanced and understandable assessment of the Company's performance, position and prospects

The Board took steps to ensure compliance with the law and other regulatory requirements as follow:

(a) Regular updates on changes on legislative and regulatory requirements;

(b) Consultations of legal advisors and other relevant professional parties when undertaking any corporate actions;

(c) Ensure disclosure obligations are fulfilled by reading relevant sections of Listing Manual of the SGX-ST and completing the relevant disclosure checklists; and

(d) Ensure that standard policies and procedures to comply with key rules in the Listing Manual are implemented such as:

- IPTs
- Trading of company's shares.

▶ Guideline 10.2 of the Code: Board to take adequate steps to ensure compliance with legislative and regulatory requirements

The management provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a quarterly basis. Furthermore, the management has been providing the Executive Director with monthly consolidated financial information. However, such monthly consolidated financial information is not reviewed or audited by the external auditor and may not always be reflective of the true and fair view of the financial position of the Group.

▶ Guideline 10.3 of the Code: Management to provide Board with management accounts on a monthly basis

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

▶ **Principle 11 of the Code: RISK MANAGEMENT AND INTERNAL CONTROLS**

The Company is committed to managing all risks in a proactive and effective manner. This requires high quality risk analysis to inform management decisions taken at all levels within the Group. Risk analysis and management is undertaken within the Group as a source of sustainable business benefits and competitive advantage. Managing threats and maximising opportunities will ensure that business objectives are met in the most effective way possible, leading to increased value for the business and its stakeholders.

▶ Guideline 11.1 of the Code: Board to determine levels of risk tolerance and risk policies

CORPORATE GOVERNANCE STATEMENT

The Company has internal processes to determine the level of risk tolerance and ensure the consistency and quality of risk analysis and management. The process includes six elements:

(a) Establishing the context;

(b) Risk identification;

(c) Risk prioritisation;

(d) Risk mitigation;

(e) Risk reporting; and

(f) Risk updates.

The purpose of engaging in such a process is to ensure that the goals and objectives of the corporate strategy of the Group are achieved.

The Internal Auditor, BDO LLP, carry out internal audit on the system of internal controls and report the findings to the AC. The External Auditor, RSM Chio Lim LLP, have also carried out, in the course of their statutory audit, an understanding of the key internal accounting controls assessed to be relevant to the statutory audit. In this respect, the AC has reviewed the findings of both the internal and external auditor and will ensure that the Company follows up on the auditors' recommendations raised during the audit process.

▶ Guideline 11.2 of the Code: Board to review the adequacy and effectiveness of the company's risk management and internal control systems, at least annually

The accounts for the year were audited by RSM Chio Lim LLP and the AC has recommended to the Board that RSM Chio Lim LLP be nominated for re-appointment as Auditor at the forthcoming AGM.

The Board conducted a review and assessment of the adequacy and effectiveness of the Company's risk management and internal control systems including financial, operational, compliance and information technology controls. The assessment was made by discussions with the management of the Company.

The Board also received assurance from the CEO and Finance Manager that:

▶ Guideline 11.3 of the Code: Board to comment on the adequacy and effectiveness of the internal controls

(a) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and

(b) the Company's risk management and internal control systems are adequate and effective.

Based on the internal controls established and maintained by the Group, regular audits, monitoring and reviews performed by the internal and external auditor, review of the risk assessment reports, assurance from the CEO and Finance Manager and reviews performed by the management, the Board, with the concurrence of the AC, is of the opinion that the system of internal controls (including financial, operational, compliance and information technology controls) and risk management systems in place are adequate and effective in addressing the financial, operational, compliance and information technology risks as at 31 December 2018 which the Group considers relevant and material to its current business scope and environment.

CORPORATE
GOVERNANCE STATEMENT

The Board and the AC noted that all internal controls contain inherent limitations and no systems of internal controls could provide absolute assurance against the occurrence of material errors, poor judgement in decision making, human error, losses, fraud or other irregularities. The Board will continue its risk assessment process, which is an on-going process, with a view to improve the Company's internal controls system.

The Board is assisted by a separate Enterprise Risk Management Committee in carrying out its responsibility of overseeing the Company's risk management framework and policies.

▶ Guideline 11.4 of the Code: Separate board risk committee

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

▶ Principle 12 of the Code: AUDIT COMMITTEE

The Audit Committee ("AC") comprises Mr Ong Beng Chye, Mr Terrance Tan Kong Hwa and Mr Chow Wen Kwan Marcus, all of whom are non-executive and independent directors. The Chairman of the AC is Mr Ong Beng Chye.

▶ Guideline 12.1, 12.2 and 12.4 of the Code: Composition of AC; Board to ensure AC members are qualified; Duties of AC

The Board is of the opinion that at least 2 members of the AC, including the AC Chairman, possess the necessary accounting or related financial management qualifications, expertise and experience in discharging their duties.

The key terms of reference of the AC are as follows:

(a) Review with the external auditor the audit plan, their evaluation of the Company's internal accounting controls that are relevant to their statutory audit and their audit report;

(b) Review with the internal auditor the internal audit plan and their evaluation of the adequacy and effectiveness of the internal controls and accounting system before submission of the results of such review to the Board;

(c) Report to the Board at least annually on the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls and risk management policies;

(d) Review the financial statements and the independent auditor's report on those financial statements before submission to the Board for approval, focusing in particular, on significant financial reporting issues and judgements, changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements;

(e) Ensure co-ordination between the external auditor and internal auditor and the management, reviewing the assistance given by the management to the auditors, and discuss problems and concerns, if any, arising from the audits, and any matters which the auditors may wish to discuss (in the absence of the management where necessary);

CORPORATE GOVERNANCE STATEMENT

(f) Review and discuss with external and internal auditor (if any), any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our operating results or financial position, and management's response;

() Make recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditor;

(h) Review any interested person transactions falling within the scope of Chapter 9 of the Listing Manual;

(i) Review any potential conflicts of interest;

(j) Undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of our AC; and

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

The role of the AC is to assist the Board in the execution of its corporate governance responsibilities within the established Board references and requirements. The AC also reviews the adequacy and effectiveness of the Company's internal controls and effectiveness of the Company's internal audit function as set out in the guidelines stated in the Code. The services of the internal auditor are utilised to assist the AC in the discharge of its duties and responsibilities.

The AC will review, at least annually, the Group's key financial risk areas (including but not limited to, the Group's cash management policies and cash position, collection of debts, hedging policies and foreign currency transactions (if any) and off-balance sheet items (if any) with a view to providing an independent oversight on the Group's financial reporting. Where the findings are material, the outcome of these reviews will immediately be announced via SGXNet and disclosed in the annual report of the Group.

SIGNIFICANT ACCOUNTING MATTERS

In the review of the financial statements for FY2018, the AC has discussed with the management the significant accounting principles that were applied and their judgement of items that might affect the accuracy and completeness of the financial statements. The following significant matters impacting the financial statements were discussed with the management and the external auditor and were reviewed by the AC. The external auditor has included these 2 significant matters as their key audit matters in the independent auditor's report for the FY2018. Please refer to Independent Auditor's Report in Financial Statements FY2018.

CORPORATE
GOVERNANCE STATEMENT

Key audit matters	How the matters were addressed by the AC
Recoverability of trade receivables	Net trade receivables amounted to S$29.4 million as at 31 December 2018. The AC considered management's approach, methodology and judgement pertaining to revenue recognition and the estimate of trade receivables impairment allowance. The AC also considered the observations and findings presented by the external auditor with reference to the payment track records of trade debtors and adequacy of allowance for impairment of trade receivables. The above procedures provided the AC with the assurance and the AC concurred with the management's conclusion that allowance for impairment of doubtful debts is adequately made as at 31 December 2018 and the relating disclosures in the financial statements are appropriate.
Impairment allowance on inventories	Net inventories amounted to S$57.2 million as at 31 December 2018. The AC considered management's approach, methodology and judgement applied to the estimate of impairment allowance for slow-moving and obsolete inventories. The AC also considered the observation and findings presented by the external auditor with reference to the adequacy of allowance for impairment of inventories. The above procedures provided the AC with the assurance and the AC concurred with the management's conclusion that allowance for impairment of inventories is adequately made as at 31 December 2018.

The AC is authorised to investigate any matter within its terms of reference, and has full access to, and cooperation of, the management. The AC has full discretion to invite any director or management staff to attend its meetings, as well as access to reasonable resources to enable it to discharge its function properly. In performing its functions, the AC also reviews the assistance given by the Company's officers to the independent auditor.

▶ Guideline 12.3 of the Code: AC to have explicit authority to investigate and have full access to management and reasonable resources

The AC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Company's operating results and/or financial position. In the event that a member of the AC is interested in any matter being considered by the AC, he will abstain from reviewing that particular transaction or voting on that particular transaction.

The AC meets with the internal auditor and external auditor without the presence of the management at least once a year. Such meeting enable the internal auditor and external auditor to raise any issue encountered in the course of their work directly to the AC. For FY2018, the AC met once with the internal auditor and external auditor without presence of the management.

▶ Guideline 12.5 of the Code: AC to meet auditors without the presence of management annually

CORPORATE GOVERNANCE STATEMENT

The AC has reviewed all non-audit services provided by the external auditor. The aggregate amount of fees paid/payable to the external auditor for FY2018 audit and non-audit services are S$231,000 and S$82,000 respectively.

▶ Guideline 12.6 of the Code: AC to review independence of external auditor annually

The AC, having considered the nature of services rendered and related charges by the external auditor, is satisfied that the independence of the external auditor is not impaired.

The Company has complied with Rules 712 and 715 of the Listing Manual of the SGX-ST in relation to its independent auditors.

WHISTLE-BLOWING POLICY

▶ Guideline 12.7 of the Code: AC to review arrangements for staff and any other persons to raise concerns/ possible improprieties to AC

The Company has in place a whistle-blowing policy where staff of the Company and any other persons can have access to the AC Chairman and members. All concerns about possible improprieties in financial reporting and other matters would be channelled to the AC Chairman and members. The Company will treat all information received confidentially and protect the identity and the interests of all whistle-blowers.

A whistle-blower email address is created for reporting suspected fraud, corruption, dishonest practices or other similar matters. Details of the whistle-blowing policy and arrangements have been made available to all employees of the Company and is published on the Company's website (http://www.hafary.com.sg/investor_relations/policies).

The AC shall commission and review the findings of internal investigations in matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on the Group's operating results and/or financial position.

As at date of this report, there were no reports received through the whistle blowing mechanism.

The external auditor present to the AC the audit plan and updates relating to any change of accounting standards which have a direct impact on the financial statements. During FY2018, the adoption of new and/or revised accounting standards did not result in any substantial changes or significant impact on the Group's financial statements.

▶ Guideline 12.8 of the Code: AC to keep updated on changes to accounting standards

No member of the AC was a former partner or director of RSM Chio Lim LLP, the Company's existing auditing firm.

▶ Guideline 12.9 of the Code: Former partner/director at the Company's auditing firm should not act as AC member

CORPORATE
GOVERNANCE STATEMENT

▶ **Principle 13 of the Code: INTERNAL AUDIT**

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

▶ Guideline 13.1 of the Code: IA to report to AC Chairman and to CEO administratively

The Group outsources its internal audit function to BDO LLP, an international auditing firm, to review key business processes of the Company and its key subsidiaries. The internal auditor, who has unrestricted access to the Group's documents, records, properties and personnel (including the AC), report directly to the AC Chairman. The AC approves the hiring, removal, evaluation and compensation of the internal auditor.

▶ Guideline 13.2, 13.3, 13.4 and 13.5 of the Code: AC to ensure IA is adequately resourced; IA should be appropriately staffed; IA should meet standards set by internally-recognised professional bodies; AC to review adequacy and effectiveness of IA function annually

The Board recognises that it is responsible for maintaining a system of internal controls to safeguard shareholders' interests and the Company's assets, while the management is responsible for establishing and implementing the internal controls procedures. The role of the internal auditor is to assist the AC in ensuring that the controls are effective and functioning as intended, to undertake investigations as directed by the AC and to conduct regular in-depth audits of high risk areas.

The internal audit team is staffed with persons with relevant qualifications and experience and carry out its function according to the BDO Global methodology which is consistent with the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditor. The AC is satisfied that the internal audit team has adequate resources to perform its functions, and has appropriate standing within the Group. The internal auditor plans its internal audit schedules in consultation with, but independent of, the management. The audit plan is submitted to the AC for approval prior to the commencement of the internal audit work.

The AC also reviews the activities of the internal audit function on a regular basis, including overseeing and monitoring the implementation of the improvements required on internal control weaknesses identified. The AC reviews, at least annually, the adequacy and effectiveness of the internal audit function of the Company.

▶ **Principle 14 of the Code: SHAREHOLDER RIGHTS**

Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

▶ Guideline 14.1 of the Code: Shareholders should be sufficiently informed of changes that would likely materially affect the Company's share price or value

The Company is committed to disclosing as much relevant information as is possible, in a timely, fair and transparent manner, to its shareholders. Material information which would likely materially affect the price or value of the Company's shares is disclosed on a comprehensive, accurate and timely basis via SGXNet. The release of such relevant information timely enables shareholders to make informed decisions in respect of their investment in the Company.

▶ Guideline 14.2 of the Code: Company to ensure shareholders have the opportunity to participate effectively and vote at general meetings

In presenting the annual financial statements and announcements of financial results to shareholders, it is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Company's performance, position and prospects. The financial results for the quarterly and full year are released to shareholders via SGXNet within 45 and 60 days of the quarter-end date and full year-end date respectively.

CORPORATE GOVERNANCE STATEMENT

Notices of general meetings are dispatched to shareholders, together with the annual report and/or circulars within the time notice period as prescribed by the regulations. At general meetings, shareholders will be given opportunities to voice their views and direct their questions to the Board regarding the Company.

The timely release of financial information and general meeting notice and circulars enables shareholders to prepare and participate effectively and vote at general meetings.

The Chairman of the AC, NC and RC will be present and available to address questions at general meetings. The external auditor will also be present to assist the Board.

Pursuant to Article 82 of the Company's Constitution, a shareholder is allowed to appoint not more than two proxies to attend and vote in his/her place at general meetings unless the shareholder is a relevant intermediary (as defined in Section 181 of the Companies Act, Chapter 50). A relevant intermediary is entitled to appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such a shareholder. However, corporations which provide nominee or custodial services can appoint more than two proxies to attend and vote at general meetings.

▶ Guideline 14.3 of the Code: Company to allow corporations which provide nominee or custodial services to appoint more than two proxies

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

▶ **Principle 15 of the Code: COMMUNICATION WITH SHAREHOLDERS**

The Company recognises that open communication is essential and has established an investor relations policy for communicating with shareholders and other audiences in the finance and investment community. This policy aims to ensure that relevant information about the Group's activities is communicated to legitimately interested parties subject to any overriding considerations of business confidentiality and cost. The investor relations policy is available at the Company's website (http://www.hafary.com.sg/investor_relations/policies).

▶ Guideline 15.1 of the Code: Company to devise effective investor relations policy to regularly convey pertinent information

The Board is mindful of the obligation to provide shareholders with information on all major developments that affect the Group in accordance with the Listing Manual of SGX-ST and the Companies' Act, Chapter 50. Information is communicated to shareholders on a timely basis through:

(a) Announcements and press releases via SGXNet;

(b) Company's website (www.hafary.com.sg); and

(c) Annual reports

▶ Guideline 15.2 of the Code: Company to disclose information timely through SGX and other channels

The investor relations function is overseen by the Chief Operating Officer. The management regularly communicates with the analysts and shareholders through email, telephone or face-to-face dialogues to update them on the latest corporate development and address their queries throughout the year.

The Company provided numerous opportunities for communication with the shareholders, investors and other stakeholders during FY2018 as follows:

(a) Annual General Meeting; and

(b) Update on corporate developments via SGXNet

▶ Guideline 15.3 and 15.4 of the Code: Board to maintain regular dialogue with shareholders; Board to disclose the steps taken to solicit and understand shareholders' views

CORPORATE GOVERNANCE STATEMENT

The Company does not have a formal dividend policy. The form, frequency and amount of future dividend of the Company's shares will depend on the earnings, financial position, results of operations, capital needs, plans for expansion, and other factors as the Board may deem appropriate.

▶ Guideline 15.5 of the Code: Company to have dividend payment policy

Any dividend payments are clearly communicated to shareholders via announcements on SGXNet. During FY2018, the Company had declared and paid one interim dividend (tax exempt one-tier) totalling 0.5 Singapore cent per ordinary share. The Board has also proposed a final dividend of 0.5 Singapore cent per ordinary share for approval at the forthcoming AGM.

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

▶ Principle 16 of the Code: CONDUCT OF SHAREHOLDER MEETINGS

The Company's Constitution allows a member entitled to attend and vote to appoint not more than 2 proxies to attend and vote instead of the member and also provides that the proxy need not be a member of the Company. Voting in absentia by mail, email or fax is currently not permitted to ensure proper authentication of the identity of the shareholders and their voting intentions.

▶ Guideline 16.1 of the Code: Shareholders should be allowed to vote in absentia

The Board notes that there should be separate resolutions at general meetings on each substantially separate issue and agrees to the Code's recommendation that companies avoid 'bundling' resolutions unless the resolutions are interdependent and linked so as to form one significant proposal.

▶ Guideline 16.2 of the Code: Separate resolutions on each substantially separate issue

All directors, including the Independent Non-Executive Chairman of the Board, and various Board Committees, attend the general meetings to address shareholders' queries and receive feedback from shareholders. The external auditor, RSM Chio Lim LLP, are also invited to attend AGMs and will assist in addressing queries from shareholders relating to the conduct of the audit and the preparation and content of the auditor's report.

▶ Guideline 16.3 of the Code: All directors should attend general meetings of shareholders

Minutes of general meetings which include substantial and relevant comments or queries from Shareholders relating to the agenda of the meeting and responses from the Board and the management were taken. Minutes of general meetings would be available to shareholders upon their written request.

▶ Guideline 16.4 of the Code: Minutes of general meetings should be prepared and available to shareholders

Voting at the general meeting will be by way of poll pursuant to Rule 730A(2) of the Listing Manual of the SGX-ST.

▶ Guideline 16.5 of the Code: All resolutions should be put to vote by poll

Announcement on the poll results (showing the number of votes cast for and against each resolution and the respective percentages) will be released after the meeting via SGXNet.

CORPORATE GOVERNANCE STATEMENT

DEALINGS IN SECURITIES

In line with Rule 1207(19) of the Listing Manual of the SGX-ST on Dealing in Securities, the Company has adopted its own Internal Code of Conduct and issues circulars to its Directors and employees, to remind them that (1) they should not deal in shares of the Company on short-term considerations or if they are in possession of unpublished material price-sensitive information; and (2) they are required to report on their dealings in the shares of the Company. The Directors and employees are also reminded of the prohibition in dealing in shares of the Company two weeks before the release of the quarterly financial results and one month before the release of the year-end financial results and ending on the date of the announcement of the relevant results. The Company has complied with the said Rule 1207(19) of the Listing Manual of the SGX-ST during FY2018.

INTERESTED PERSON TRANSACTIONS

The Group has adopted an internal policy in respect of any transactions with interested persons and requires all such transactions to be at arm's length and is reviewed by the AC. Besides the information disclosed in Table 1 below, there were no other interested person transactions conducted during the year, which exceeds S$100,000 in value.

The Group has a general mandate for interested person transactions which has been in force since 11 April 2016. This general mandate will be renewed on the forthcoming AGM.

MATERIAL CONTRACTS

Pursuant to Rule 1207(8) of the Listing Manual of the SGX-ST, except as disclosed in Interested Person Transactions, there was no material contract or loan entered into between the Company and any of its subsidiaries involving interests of any Director or controlling shareholder during FY2018.

Table 1:

Name of Interested Person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than $100,000)			
	Conducted under shareholders' mandate pursuant to Rule 920		Not conducted under shareholders' mandate pursuant to Rule 920	
	FY2018	FY2017	FY2018	FY2017
	S$'000	S$'000	S$'000	S$'000
Purchases from Malaysian Mosaic Sdn. Bhd.	9,324	6,983	–	–
Purchases from MML Marketing Pte. Ltd.	2,146	1,255	–	–
Sales to Malaysian Mosaic Sdn. Bhd.	271	–	–	–

FINANCIAL CONTENTS

STATEMENT BY DIRECTORS

The directors of the company are pleased to present the financial statements of the company and of the group for the reporting year ended 31 December 2018.

1. OPINION OF THE DIRECTORS

In the opinion of the directors,

(a) the consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company are drawn up so as to give a true and fair view of the financial position of the group and of the company as at 31 December 2018 and of the financial performance, changes in equity and cash flows of the group and changes in equity of the company for the reporting year ended on that date; and

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

The board of directors approved and authorised these financial statements for issue.

2. DIRECTORS

The directors of the company in office at the date of this statement are:

Cheah Yee Leng
Chow Wen Kwan Marcus
Datuk Edward Lee Ming Foo, JP
Low Kok Ann
Low See Ching
Ong Beng Chye
Terrance Tan Kong Hwa
Yong Teak Jan @ Yong Teck Jan

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the company holding office at the end of the reporting year were not interested in shares in or debentures of the company or other related body corporate as recorded in the register of directors' shareholdings kept by the company under section 164 of the Companies Act, Chapter 50 (the "Act") except as follows:

	Direct interests		Deemed interests	
Name of directors and companies in which interests are held	**At beginning of the reporting year**	**At end of the reporting year**	**At beginning of the reporting year**	**At end of the reporting year**
The company	**Number of shares of no par value**			
Low Kok Ann	35,539,003	35,539,003	–	–
Low See Ching	113,900	113,900	69,553,400	69,553,400

The directors' interests as at 21 January 2019 were the same as those at the end of the reporting year.

STATEMENT BY DIRECTORS

4. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the reporting year nor at any time during the reporting year did there subsist arrangements to which the company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate except as mentioned below.

5. OPTIONS

During the reporting year, no option to take up unissued shares of the company or other body corporate in the group was granted except for those disclosed below.

Hafary Performance Share Plan (the "Hafary PSP")

The Hafary PSP is intended to give the company greater flexibility in tailoring reward and incentive packages for its directors and employees, and aligning their interest with those of the company's shareholders.

Awards granted under the Hafary PSP will be principally (i) performance-based and (ii) loyalty-based. The performance targets to be set are intended to be broad-based and shall take into account both the medium-term corporate objectives of the group and the individual performance of the participant. The medium-term corporate objectives include market competitiveness, quality of returns, business growth and productivity growth. The performance targets set are based on medium-term corporate objectives, which include revenue growth, growth in earnings and return on investment. Additionally, the participant's length of service with the group, achievement of past performance targets, extent of value-adding to the group's performance and development and overall enhancement to shareholder value, *inter alia*, will be taken into account. The Hafary PSP may also have an extended vesting period, that is, the awards will also incorporate a time-based service condition, to encourage participants to continue serving the group beyond the achievement date of the pre-determined performance targets.

The Hafary PSP was approved by the shareholders of the company at its annual general meeting held on 25 October 2013.

The Hafary PSP is administered by the Plan Committee, comprising the Remuneration Committee and the Chief Executive Officer, who is authorised and appointed by the Board. Members of the Plan Committee are as follows:

Chow Wen Kwan Marcus (Chairman)
Ong Beng Chye
Terrance Tan Kong Hwa
Low Kok Ann

Participants in the Hafary PSP will receive awards which represent the rights to receive fully paid shares of the company free of charge, upon satisfying the performance condition (determined at the discretion of the Plan Committee) and provided that the relevant participant has continued to be a group executive from the award date up to the end of the performance period. Employees who are controlling shareholders or associates of controlling shareholders shall not participate in the Hafary PSP.

During the reporting year, there was no performance shares granted, vested and cancelled under the Hafary PSP.

The number of performance shares vested at the vesting date are dependent on the level of achievement against the pre-set performance conditions and targets.

5. **OPTIONS** (CONTINUED)

From the commencement of the Hafary PSP, no performance shares were granted to directors of the company.

Details of performance shares granted under the Hafary PSP to other participants are as follows:

	Number of Hafary performance shares				
Recipients	**Performance shares granted during reporting year ended 31 December 2018**	**Aggregate performance shares granted since commencement of the Plan to 31 December 2018**	**Aggregate performance shares vested since commencement of the Plan to 31 December 2018**	**Aggregate performance shares cancelled/ lapsed since commencement of the Plan to 31 December 2018**	**Aggregate performance shares outstanding at 31 December 2018**
Other participants	–	**1,800,000**	**1,550,000**	**250,000**	–

No participants received 5% or more of the total performance shares available under the Hafary PSP.

At the end of the reporting year, there were no unissued shares under option.

6. **INDEPENDENT AUDITOR**

RSM Chio Lim LLP has expressed willingness to accept re-appointment.

7. **REPORT OF AUDIT COMMITTEE**

The members of the Audit Committee at the date of this report are as follows:

Ong Beng Chye	(Chairman of Audit Committee and Independent Director)
Chow Wen Kwan Marcus	(Independent Director)
Terrance Tan Kong Hwa	(Independent Director)

The Audit Committee performs the functions specified by section 201B (5) of the Act. Among other functions, it performed the following:

- Reviewed with the independent external auditor their audit plan;
- Reviewed with the independent external auditor their evaluation of the company's internal accounting controls that are relevant to their statutory audit, their report on the financial statements and the assistance given by management to them;
- Reviewed with the internal auditor the scope and results of the internal audit procedures (including those relating to financial, operational and compliance controls and risk management) and the assistance given by the management to them;
- Reviewed the financial statements of the group and the company prior to their submission to the directors of the company for adoption; and
- Reviewed the interested person transactions (as defined in Chapter 9 of the Singapore Exchange Securities Trading Limited's Listing Manual).

STATEMENT BY DIRECTORS

7. REPORT OF AUDIT COMMITTEE (CONTINUED)

Other functions performed by the Audit Committee are described in the Corporate Governance Statement included in the annual report of the company. It also includes an explanation of how independent external auditor's objectivity and independence are safeguarded where the independent external auditor provides non-audit services.

The Audit Committee has recommended to the board of directors that RSM Chio Lim LLP be nominated for re-appointment as the independent external auditor at the next annual general meeting of the company.

8. DIRECTORS' OPINION ON THE ADEQUACY OF INTERNAL CONTROLS

Based on the internal controls established and maintained by the company, work performed by the internal and external auditors, and reviews performed by management, other committees of the board and the board, the Audit Committee and the board are of the opinion that the company's internal controls, addressing financial, operational and compliance risks, are adequate as at the end of the reporting year 31 December 2018.

9. SUBSEQUENT DEVELOPMENTS

There are no significant developments subsequent to the release of the group's and the company's preliminary financial statements, as announced on 21 February 2019, which would materially affect the group's and the company's operating and financial performance as of the date of this report.

On behalf of the directors

....	....
Low Kok Ann	Low See Ching
Director	Director

27 March 2019

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF HAFARY HOLDINGS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Hafary Holdings Limited (the "company") and its subsidiaries (the "group"), which comprise the consolidated statement of financial position of the group and the statement of financial position of the company as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the group, and statement of changes in equity of the company for the reporting year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the group and the financial position of the company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the group and the changes in equity of the company for the reporting year ended on that date.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current reporting year. 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.

(1) Recoverability of trade receivables

Refer to Note 2 for the relevant accounting policy and Notes 23 and 37D for the breakdown in trade receivables and credit risk of the group respectively.

Key Audit Matter

The group's trade receivables totalled $29,418,000 as at the end of the reporting year. Any impairment of significant receivables could have material impact to the group's profit or loss.

The estimate of impairment allowance is based on the historical trend of these receivables, which includes analysis of the age of these receivables, credit worthiness of the profile of the customers and future collectability. Besides that, expected credit losses ("ECL") model is also being applied to determine the loss allowance for trade receivables based on historical observed default rates adjusted for forward-looking estimates.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HAFARY HOLDINGS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (Continued)

(1) Recoverability of trade receivables (Continued)

How we addressed the matter in our audit

Our audit procedures included (a) assessing the recoverability of the significant aged debts, by discussing with management, checking subsequent collections and corroborating to the historical payment records; and (b) assessing whether disclosures in respect of the credit risk of trade receivables is appropriate. Specific impairment allowance is provided accordingly.

For ECL, our audit procedures included (a) reviewing management's assessment on ECL; and (b) assessing the measurement of expected loss allowance. General impairment allowance is provided accordingly.

We also evaluated the qualitative adjustment to the allowance and challenging the reasonableness of the key assumptions in determining the allowance.

We found the estimates to be balanced and the disclosures to be appropriate.

(2) Impairment allowance on inventories

Refer to Note 2 for the relevant accounting policy and Note 22 for the breakdown in inventories at the reporting year end.

Key Audit Matter

The group held inventories of $57,192,000 as at end of the reporting year. The carrying amount of inventories may not be recoverable in full if those inventories become slow moving, or if their selling prices have declined below carrying amounts.

The estimate of allowance for slow moving inventories is based on the age of these inventories, prevailing market demand of inventory category and historical provisioning experience which requires management's judgement. Management applies particular judgement in the areas relating to inventory allowance based on inventory aging. This methodology relies upon assumptions made in determining appropriate allowance of inventories.

How we addressed the matter in our audit

For the samples selected, our audit procedures included (a) the checking of the net realisable value of the inventories by comparing cost to subsequent/latest selling prices; and (b) reviewing the inventory turnover days and aging of the inventories to assess if there were any significant build up of aged inventories and assessing the reasonableness of the allowance for slow moving inventories. We also assessed the management's judgement and assumptions applied to the group's policy by analysing the historical data trend as well as performing analytical procedures on the inventory aging profile.

We satisfied ourselves that the impairment allowance on inventories have been prepared in line with policy and are supportable on the basis of historical trends.

INDEPENDENT AUDITOR'S REPORT

to the Members of HAFARY HOLDINGS LIMITED

Other information

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

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

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

Responsibilities of management and directors for the financial statements

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

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

The directors' responsibilities include overseeing the group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HAFARY HOLDINGS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (Continued)

(d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

(e) 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.

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

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

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

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

Report on other legal and regulatory requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Pang Hui Ting.

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

27 March 2019

Engagement partner – effective from year ended 31 December 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2018

	Notes	2018 $'000	2017 $'000
Revenue	5	**119,999**	115,834
Interest income	6	**472**	58
Other gains	7	**601**	608
Changes in inventories of goods held for resale		**7,418**	1,444
Purchases and related costs		**(76,144)**	(69,785)
Employee benefits expense	8	**(19,637)**	(18,515)
Amortisation and depreciation expense	15, 16, 17	**(6,063)**	(6,109)
Impairment losses	9	**(1,907)**	(1,843)
Other losses	7	**(420)**	(521)
Finance costs	10	**(4,161)**	(3,607)
Other expenses	11	**(10,734)**	(10,811)
Share of profit from an equity-accounted associate	19	**3,108**	3,277
Share of losses from equity-accounted joint ventures	20	**(543)**	(191)
Profit before income tax		**11,989**	9,839
Income tax expense	12	**(1,870)**	(1,407)
Profit, net of tax		**10,119**	8,432
Other comprehensive loss			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	28A	**(437)**	(652)
Total comprehensive income		**9,682**	7,780
Profit attributable to:			
– Owners of the parent, net of tax		**10,723**	8,745
– Non-controlling interests, net of tax		**(604)**	(313)
		10,119	8,432
Total comprehensive income attributable to:			
– Owners of the parent		**10,286**	8,093
– Non-controlling interests		**(604)**	(313)
		9,682	7,780
		Cents	Cents
Earnings per share			
Basic	13	**2.49**	2.03
Diluted	13	**2.49**	2.03

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

STATEMENTS OF
FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	Group 31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
ASSETS				
Non-current assets				
Property, plant and equipment	15	**80,707**	83,730	85,806
Other assets, non-current	16	**30,550**	31,890	33,162
Investment property	17	**4,228**	4,247	4,265
Investment in an associate	19	**12,480**	9,784	7,088
Investments in joint ventures	20	**2,483**	3,106	272
Other financial assets, non-current	21	**423**	2,636	2,569
Other receivables, non-current	23	**992**	–	–
Total non-current assets		**131,863**	135,393	133,162
Current assets				
Inventories	22	**57,192**	51,250	50,876
Trade and other receivables, current	23	**34,666**	32,733	33,482
Derivative financial assets	33	**–**	–	292
Other financial assets, current	24	**–**	–	656
Other assets, current	25	**6,668**	5,143	4,383
Cash and cash equivalents	26	**6,063**	5,996	4,438
Total current assets		**104,589**	95,122	94,127
Total assets		**236,452**	230,515	227,289
EQUITY AND LIABILITIES				
Equity				
Share capital	27	**26,930**	26,930	26,634
Retained earnings		**38,068**	31,651	27,204
Other reserves	28	**(986)**	(549)	337
Equity, attributable to owners of the parent		**64,012**	58,032	54,175
Non-controlling interests		**2,181**	3,046	3,552
Total equity		**66,193**	61,078	57,727
Non-current liabilities				
Deferred tax liabilities	12	**573**	580	509
Other financial liabilities, non-current	29	**83,080**	86,898	90,039
Total non-current liabilities		**83,653**	87,478	90,548
Current liabilities				
Provision	30	**891**	653	523
Income tax payable		**2,043**	1,589	1,651
Trade and other payables	31	**20,835**	19,988	22,160
Derivative financial liabilities	33	**35**	229	–
Other financial liabilities, current	29	**60,287**	58,055	53,658
Other liabilities	32	**2,515**	1,445	1,022
Total current liabilities		**86,606**	81,959	79,014
Total liabilities		**170,259**	169,437	169,562
Total equity and liabilities		**236,452**	230,515	227,289

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

STATEMENTS OF
FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	31.12.2018 $'000	Company 31.12.2017 $'000	01.01.2017 $'000
ASSETS				
Non-current assets				
Property, plant and equipment	15	**454**	167	234
Investments in subsidiaries	18	**9,239**	9,239	9,239
Other financial assets, non-current	21	**423**	586	488
Total non-current assets		**10,116**	9,992	9,961
Current assets				
Trade and other receivables, current	23	**29,454**	29,416	26,864
Other assets, current	25	**9**	4	4
Cash and cash equivalents	26	**26**	21	30
Total current assets		**29,489**	29,441	26,898
Total assets		**39,605**	39,433	36,859
EQUITY AND LIABILITIES				
Equity				
Share capital	27	**26,930**	26,930	26,634
Retained earnings (accumulated losses)		**2,253**	2,307	(243)
Other reserves	28	**–**	–	234
Total equity		**29,183**	29,237	26,625
Non-current liabilities				
Other financial liabilities, non-current	29	**193**	54	88
Total non-current liabilities		**193**	54	88
Current liabilities				
Income tax payable		**4**	3	1
Trade and other payables	31	**10,182**	10,105	10,112
Other financial liabilities, current	29	**43**	34	33
Total current liabilities		**10,229**	10,142	10,146
Total liabilities		**10,422**	10,196	10,234
Total equity and liabilities		**39,605**	39,433	36,859

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

STATEMENTS OF
CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2018

Group:	Total equity $'000	Attributable to parent subtotal $'000	Share capital $'000	Retained earnings $'000	Other reserves $'000	Non-controlling interests $'000
Current year:						
Opening balance at 1 January 2018	**61,078**	**58,032**	**26,930**	**31,651**	**(549)**	**3,046**
Movements in equity:						
Total comprehensive income (loss) for the year	**9,682**	**10,286**	**–**	**10,723**	**(437)**	**(604)**
Dividends paid (Note 14)	**(4,306)**	**(4,306)**	**–**	**(4,306)**	**–**	**–**
Dividends paid to non-controlling interests in subsidiaries	**(261)**	**–**	**–**	**–**	**–**	**(261)**
Closing balance at 31 December 2018	**66,193**	**64,012**	**26,930**	**38,068**	**(986)**	**2,181**
Previous year:						
Opening balance at 1 January 2017	57,727	54,175	26,634	27,204	337	3,552
Movements in equity:						
Total comprehensive income (loss) for the year	7,780	8,093	–	8,745	(652)	(313)
Equity-settled share-based expenses (Note 28B)	62	62	–	–	62	–
Issuance of new ordinary shares under Hafary Performance Share Plan (Notes 27 and 28B)	–	–	296	–	(296)	–
Dividends paid (Note 14)	(4,298)	(4,298)	–	(4,298)	–	–
Dividends paid to non-controlling interests in subsidiaries	(193)	–	–	–	–	(193)
Closing balance at 31 December 2017	61,078	58,032	26,930	31,651	(549)	3,046

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

STATEMENTS OF
CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2018.

Company:	Total equity $'000	Share capital $'000	Retained earnings/ (accumulated losses) $'000	Other reserves $'000
Current year:				
Opening balance at 1 January 2018	**29,237**	**26,930**	**2,307**	–
Movements in equity:				
Total comprehensive income for the year	**4,252**	–	**4,252**	–
Dividends paid (Note 14)	**(4,306)**	–	**(4,306)**	–
Closing balance at 31 December 2018	**29,183**	**26,930**	**2,253**	–
Previous year:				
Opening balance at 1 January 2017	26,625	26,634	(243)	234
Movements in equity:				
Total comprehensive income for the year	6,848	–	6,848	–
Equity-settled share-based expenses (Note 28B)	62	–	–	62
Issuance of new ordinary shares under Hafary Performance Share Plan (Notes 27 and 28B)	–	296	–	(296)
Dividends paid (Note 14)	(4,298)	–	(4,298)	–
Closing balance at 31 December 2017	29,237	26,930	2,307	–

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2018

	2018 $'000	2017 $'000
Cash flows from operating activities		
Profit before income tax	**11,989**	9,839
Adjustments for:		
Interest expense	**4,161**	3,607
Interest income	**(472)**	(58)
Amortisation of other assets, non current	**1,201**	1,203
Depreciation of property, plant and equipment	**4,843**	4,888
Depreciation of investment property	**19**	18
Equity-settled share-based expenses	**–**	62
Gain on disposal of plant and equipment	**(31)**	–
Fair value losses (gains) on other financial assets, net	**163**	(98)
Share of profit from an equity-accounted associate	**(3,108)**	(3,277)
Share of losses from equity-accounted joint ventures	**543**	191
Net effect of exchange rate changes in consolidating subsidiaries	**(4)**	(61)
Operating cash flows before changes in working capital	**19,304**	16,314
Inventories	**(5,942)**	(374)
Trade and other receivables	**2,223**	(646)
Other assets	**(1,525)**	(760)
Provision	**238**	130
Trade and other payables	**1,517**	(1,744)
Derivative financial liabilities	**(194)**	521
Other liabilities	**1,070**	423
Net cash flows from operations	**16,691**	13,864
Income taxes paid	**(1,423)**	(1,398)
Net cash flows from operating activities	**15,268**	12,466
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 26B)	**(2,541)**	(3,806)
Proceeds from disposal of plant and equipment	**162**	252
Redemption of other financial asset	**–**	656
Investment in joint ventures	**(5)**	(3,090)
Net movements in amount due from an associate	**(1,314)**	1,395
Net movements in amount due from a joint venture	**(1,412)**	–
Dividend income from an associate	**421**	209
Dividend income from a joint venture	**15**	35
Interest income received	**34**	58
Net cash flows used in investing activities	**(4,640)**	(4,291)
Cash flows from financing activities		
Dividends paid to equity owners	**(4,306)**	(4,298)
Dividends paid to non-controlling interests	**(261)**	(193)
Net movements in amounts due to a director and a shareholder	**126**	437
Increase in trust receipts and bills payable	**1,434**	284
Repayment of finance lease liabilities	**(487)**	(598)
Increase from new borrowings	**6,242**	8,242
Decrease in other financial liabilities	**(9,171)**	(6,895)
Interest expense paid	**(4,141)**	(3,580)
Net cash flows used in financing activities	**(10,564)**	(6,601)
Net increase in cash and cash equivalents	**64**	1,574
Net effect of exchange rate changes on cash and cash equivalents	**3**	(16)
Cash and cash equivalents, beginning balance	**5,996**	4,438
Cash and cash equivalents, ending balance (Note 26)	**6,063**	5,996

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

1. GENERAL

Hafary Holdings Limited (the "company") is incorporated in Singapore with limited liability. It is listed on the Main Board of Singapore Exchange Securities Trading Limited.

The financial statements are presented in Singapore Dollar and they cover the company and its subsidiaries (the "group"). All financial information have been rounded to the nearest thousand ("$'000"), except when otherwise indicated.

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors.

The company is an investment holding company. The principal activities of the subsidiaries are disclosed in Note 18 below.

The registered office and principal place of business of the company is located at 105 Eunos Avenue 3, Hafary Centre, Singapore 409836.

Statement of compliance with financial reporting standards

These financial statements for the year ended 31 December 2018 are the first time for the group and the company have prepared in accordance with the Singapore Financial Reporting Standards (International) ("SFRS(I)s") and the related Interpretations to SFRS(I) ("SFRS(I) INT") as issued by the Singapore Accounting Standards Council. Accordingly, the group and the company have prepared financial statements that comply with SFRS(I) applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. On preparing the financial statements, the group's and the company's opening statement of financial position were prepared as at 1 January 2017, the group and the company's date of transition to SFRS(I).

These financial statements are in compliance with the provisions of the Companies Act, Chapter 50 and with SFRS(I)s issued by the Singapore Accounting Standards Council.

Accounting convention

The financial statements are prepared on a going concern basis under the historical cost convention except where a financial reporting standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. The accounting policies in the financial reporting standards may not be applied when the effect of applying them is not material. The disclosures required by financial reporting standards may not be provided if the information resulting from that disclosure is not material.

Basis of preparation of the financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies. The areas requiring management's most difficult, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2C below, where applicable.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

1. GENERAL (CONTINUED)

Basis of presentation

The consolidated financial statements include the financial statements made up to the end of the reporting year of the company and all of its subsidiaries. The consolidated financial statements are the financial statements of the group (the parent and its subsidiaries) are presented as those of a single economic entity and are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions are eliminated on consolidation. Subsidiaries are consolidated from the date the reporting entity obtains control of the investee and cease when the reporting entity loses control of the investee.

Changes in the group's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity as transactions with owners in their capacity as owners. The carrying amounts of the group's and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. When the group loses control of a subsidiary, it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost and is subsequently accounted as available-for-sale financial assets in accordance with the financial reporting standards on financial instruments.

The company's separate financial statements have been prepared on the same basis, and as permitted by the Companies Act, Chapter 50, the company's separate statement of profit or loss and other comprehensive income and statement of cash flows are not presented.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

2A. Significant accounting policies

Revenue recognition

The financial reporting standard on revenue from contracts with customers establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer (which excludes estimates of variable consideration that are subject to constraints, such as right of return exists, trade discounts, volume rebates and changes to the transaction price arising from modifications), net of any related sales taxes and excluding any amounts collected on behalf of third parties. An asset (goods or services) is transferred when or as the customer obtains control of that asset. As a practical expedient, the effects of any significant financing component is not adjusted if the payment for the good or service will be within one year.

Sale of goods – Revenue is recognised at a point in time when the performance obligation is satisfied by transferring a promised good or service to the customer. Control of the goods is transferred to the customer, generally on delivery of the goods (in this respect, incoterms are considered).

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONTINUED)

2A. Significant accounting policies (Continued)

Revenue recognition (Continued)

Distinct goods or services created over time – Revenue from installation service is recognised over time during the contract period and it is accounted for as a single performance obligation that is satisfied over time. This is because the customer simultaneously receives and consumes the benefits of the entity's performance in processing each transaction as and when each transaction is processed; the performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or the performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. The revenue is recognised over time by using the input method. For the input method, the revenue is recognised on the basis of the efforts or inputs to the satisfaction of a performance obligation such as costs incurred relative to the total expected inputs to the satisfaction of that performance obligation.

Rental income is recognised on a time-proportion basis that takes into account the effective yield on the asset on a straight-line basis over the lease term.

Interest income is recognised using the effective interest method.

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the conditions attaching to them will be complied with and that the grants will be received. Grants in recognition of specific expenses are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs that they are intended to compensate. The grant related to assets is presented in the statement of financial position by recognising the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset and in the proportions in which depreciation expense on those assets is recognised. The grant related to assets is deducted in calculating the carrying amount of the asset and therefore the grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Employee benefits

Contributions to a defined contribution retirement benefit plan are recorded as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it is obligated to contribute for the Singapore employees to an independently administered fund (such as the Central Provident Fund in Singapore, a government managed defined contribution retirement benefit plan). Certain overseas subsidiaries have defined contribution retirement benefit plans in which employees are entitled to join upon fulfilling certain conditions. The assets of the fund may or may not be held separately from those of the entity in an independently administered fund. The entity contributes an amount equal to a fixed percentage of the salary of each participating employee. For employee leave entitlement, the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur. A liability for bonuses is recognised where the entity is contractually obliged or where there is constructive obligation based on past practice.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONTINUED)

2A. Significant accounting policies (Continued)

Share-based compensation

Benefits to employees are also provided in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (''equity-settled transactions''). The fair value of the employee services rendered is measured by reference to the fair value of the shares awarded or rights granted, excluding the impact of any non-market vesting conditions. These are fair valued based on the market price of the entity's shares (or an estimated market price, if the entity's shares are not publicly traded). This fair value amount is charged to profit or loss over the vesting period of the share-based payment scheme, with the corresponding increase in equity. The value of the charge is adjusted in profit or loss over the remainder of the vesting period to reflect expected and actual quantities vesting, with the corresponding adjustment made in equity. Cancellations of grants of equity instruments during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) are accounted for as an acceleration of vesting, therefore any amount unrecognised that would otherwise have been charged is recognised immediately in profit or loss.

Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing. Interest expense is calculated using the effective interest method. Borrowing costs are recognised as an expense in the period in which they are incurred except that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of that asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Income tax

The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the reporting year in respect of current tax and deferred tax. Current and deferred income taxes are recognised as income or as an expense in profit or loss unless the tax relates to items that are recognised in the same or a different period outside profit or loss. For such items recognised outside profit or loss, the current tax and deferred tax are recognised (a) in other comprehensive income if the tax is related to an item recognised in other comprehensive income and (b) directly in equity if the tax is related to an item recognised directly in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at each end of the reporting year and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability or asset is recognised for all taxable temporary differences associated with investments in subsidiaries, associates and joint arrangements except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONTINUED)

2A. Significant accounting policies (Continued)

Foreign currency transactions

The functional currency is the Singapore Dollar as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At each end of the reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value measurement dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss. The presentation is in the functional currency.

Translation of financial statements of other entities

Each entity within the group determines the appropriate functional currency as it reflects the primary economic environment in which the relevant reporting entity operates. In translating the financial statements of such an entity for incorporation in the consolidated financial statements in the presentation currency, the assets and liabilities denominated in other currencies are translated at end of the reporting year rates of exchange and the income and expenses items for each statement presenting profit or loss and other comprehensive income are translated at average rates of exchange for the reporting year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of that relevant reporting entity.

Subsidiaries

A subsidiary is an entity including unincorporated and special purpose entity that is controlled by the reporting entity and the reporting entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of substantive potential voting rights that the reporting entity has the practical ability to exercise (that is, substantive rights) are considered when assessing whether the reporting group controls another entity.

In the company’s separate financial statements, an investment in a subsidiary is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for a subsidiary is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying value and the net book value of the investment in a subsidiary are not necessarily indicative of the amount that would be realised in a current market exchange.

Non-controlling interests

The non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to the reporting entity as the parent. The non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. For each business combination, any non-controlling interest in the acquiree (subsidiary) is initially measured either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. Where the non-controlling interest is measured at fair value, the valuation techniques and key model inputs used are disclosed in the relevant Note. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONTINUED)

2A. Significant accounting policies (Continued)

Associate

An associate is an entity including an unincorporated entity in which the reporting entity has a significant influence and that is neither a subsidiary nor a joint arrangement of the reporting entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. An investment in an associate includes goodwill on acquisition, which is accounted for in accordance with the financial reporting standard on business combinations. However the entire carrying amount of the investment is tested under the financial reporting standard on impairment, by comparing its recoverable amount (higher of value in use and fair value) with its carrying amount, whenever application of the requirements in the financial reporting standard on financial instruments indicates that the investment may be impaired.

In the consolidated financial statements, the accounting for investments in an associate is on the equity method. Under the equity method the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The carrying value and the net book value of the investment in the associate are not necessarily indicative of the amounts that would be realised in a current market exchange. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. Losses of an associate in excess of the reporting entity's interest in the relevant associate are not recognised except to the extent that the reporting entity has an obligation. Profits and losses resulting from transactions between the reporting entity and an associate are recognised in the financial statements only to the extent of unrelated reporting entity's interests in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the reporting entity. The reporting entity discontinues the use of the equity method from the date that when its investment ceases to be an associate and accounts for the investment in accordance with financial reporting standard on financial instruments from that date. Any gain or loss is recognised in profit or loss. Any investment retained in the former associate is measured at fair value at the date that it ceases to be an associate.

Joint arrangements – joint ventures

A joint arrangement (that is, either a joint operation or a joint venture, depending on the rights and obligations of the jointly controlling parties to the arrangement), is one in which the reporting entity is party to an arrangement of which two or more parties have joint control, which is the contractually agreed sharing of control of the arrangement; it exists only when decisions about the relevant activities (that is, activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. In a joint venture, the parties with joint control have rights to the net assets of the arrangement.

The reporting interests in joint ventures are recognised using the equity method in accordance with financial reporting standard on investments in associates and joint ventures (as described above for associates).

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONTINUED)

2A. Significant accounting policies (Continued)

Property, plant and equipment

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight-line method to allocate the gross carrying amounts of the assets less their residual values over their estimated useful lives of each part of an item of these assets. The annual rates of depreciation are as follows:

Leasehold properties	–	Over the terms of leases from 2% to 8%
Plant and equipment	–	10% to 33%
Motor vehicles	–	20%

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising from the derecognition of an item of property, plant and equipment is measured as the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the reporting year and, if expectations differ significantly from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted.

Cost also includes acquisition cost, borrowing cost capitalised and any cost directly attributable to bringing the asset or component to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are recognised as an asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred.

Investment property

Investment property is property (land or a building or part of a building or both) owned or held under a finance lease to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. It includes an investment property in the course of construction. After initial recognition at cost including transaction costs the cost model is used to measure the investment property, that is, at cost less accumulated depreciation and any accumulated impairment losses. The annual rate of depreciation is as follows:

Freehold building	–	5%

Freehold land has unlimited useful life and therefore is not depreciated.

For disclosure purposes only, the fair values are measured periodically on a systematic basis at least once in three years by external independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONTINUED)

2A. Significant accounting policies (Continued)

Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and any accumulated impairment losses. The land use rights are amortised on a straight-line basis over the remaining lease terms.

Leases

Leases are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases. At the commencement of the lease term, a finance lease is recognised as an asset and as a liability in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each measured at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine, the lessee's incremental borrowing rate is used. Any initial direct costs of the lessee are added to the amount recognised as an asset. The excess of the lease payments over the recorded lease liability are treated as finance charges which are allocated to each reporting year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the reporting years in which they are incurred. The assets are depreciated as owned depreciable assets. Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. For operating leases, lease payments are recognised as an expense in profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Impairment of non-financial assets

The carrying amount of non-financial assets is reviewed at each end of the reporting year for indications of impairment and where an asset is impaired, it is written down through profit or loss to its estimated recoverable amount. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. When the fair value less costs of disposal method is used, any available recent market transactions are taken into consideration. When the value in use method is adopted, in assessing the 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each end of the reporting year, non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. 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 measured, net of depreciation or amortisation, if no impairment loss had been recognised.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONTINUED)

2A. Significant accounting policies (Continued)

Inventories

Inventories are measured at the lower of cost (specific identification method) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Financial instruments

Recognition and derecognition of financial instruments:

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. A financial asset is derecognised 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 entity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires. At initial recognition the financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification and measurement of financial assets:

1. Financial asset classified as measured 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 fair value through profit or loss ("FVTPL"), that is (a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Typically trade and other receivables, bank and cash balances are classified in this category.

2. Financial asset that is a debt asset instrument classified as measured at fair value through other comprehensive income ("FVTOCI"): There were no financial assets classified in this category at reporting year end date.

3. Financial asset that is an equity investment classified as measured at fair value through other comprehensive income ("FVTOCI"): There were no financial assets classified in this category at reporting year end date.

4. Financial asset classified as measured at fair value through profit or loss ("FVTPL"): All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, management may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONTINUED)

2A. Significant accounting policies (Continued)

Financial instruments (Continued)

Classification and measurement of financial liabilities:

Financial liabilities are classified as at fair value through profit or loss ("FVTPL") in either of the following circumstances: (1) the liabilities are managed, evaluated and reported internally on a fair value basis; or (2) the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. All other financial liabilities are carried at amortised cost using the effective interest method. Reclassification of any financial liability is not permitted.

Cash and cash equivalents

Cash and cash equivalents include bank and cash balances, on demand deposits and any highly liquid debt instruments purchased with an original maturity of three months or less. For the consolidated statement of cash flows the item includes cash and cash equivalents less cash subject to restriction and bank overdrafts payable on demand that form an integral part of cash management.

Derivative financial instruments

A derivative financial instrument is a financial instrument with all three of the following characteristics (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices, credit ratings or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date. The derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently classified as measured at FVTPL unless the derivative is designated and effective as a hedging instrument.

Fair value measurement

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, market observable data to the extent possible is used. If the fair value of an asset or a liability is not directly observable, an estimate is made using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (eg by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account. The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONTINUED)

2A. Significant accounting policies (Continued)

Fair value measurement (Continued)

Fair values are categorised into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety: Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices). Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value. The fair values of non-current financial instruments may not be disclosed separately unless there are significant differences at the end of the reporting year and in the event the fair values are disclosed in the relevant notes to the financial statements.

2B. Other explanatory information

Provisions

A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is made using best estimates of the amount required in settlement and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Changes in estimates are reflected in profit or loss in the reporting year they occur.

Segment reporting

The group discloses financial and descriptive information about its consolidated reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is reported on the same basis as is used internally for evaluating operating segments performance and deciding how to allocate resources to operating segments.

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONTINUED)

2C. Critical judgements, assumptions and estimation uncertainties

The critical judgements made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities currently or within the next reporting year are discussed below. These estimates and assumptions are periodically monitored to ensure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

Net realisable value of inventories:
A review is made on inventory for slow moving items and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. The review requires management to consider the future demand for the products. In any case, the realisable value represents the best estimate of the recoverable amount and is based on the acceptable evidence available at the end of the reporting year and inherently involves estimates regarding the future expected realisable value. The usual considerations for determining the amount of allowance or write-down include ageing analysis, market demands and subsequent events. In general, such an evaluation process requires significant judgment and materially affects the carrying amount of inventories at the end of the reporting year. Possible changes in these estimates could result in revisions to the stated value of the inventories. The carrying amount is disclosed in the Note on inventories.

Allowance for trade receivables:
The trade receivables are subject to the expected credit loss model under the financial reporting standard on financial instruments. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates (over a period of certain months) over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The loss allowance was determined accordingly. The carrying amounts might change materially within the next reporting year but these changes may not arise from assumptions or other sources of estimation uncertainty at the end of the reporting year. The carrying amount is disclosed in the Note on trade and other receivables.

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

The financial reporting standard on related party disclosures requires the reporting entity to disclose: (a) transactions with its related parties; and (b) relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. A party is related to a party if the party controls, or is controlled by, or can significantly influence or is significantly influenced by the other party.

3A. Members of a group

Name	Relationship	Country of incorporation
Gek Poh (Holdings) Sdn. Bhd.	Ultimate parent company	Malaysia
Hap Seng Consolidated Berhad	Intermediate parent company	Malaysia
Hap Seng Investment Holdings Pte. Ltd.	Immediate parent company	Singapore

Related companies in these financial statements include the members of the above group of companies. Associates also include those that are associates of members of the above group.

3B. Related party transactions

There are transactions and arrangements between the group and its related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The related party balances and transfer of resources, services or obligations, if any are unsecured without fixed repayment terms and interest or charge unless stated otherwise.

Intragroup transactions and balances that have been eliminated in these consolidated financial statements are not disclosed as related party transactions and balances below.

In addition to transactions and balances disclosed elsewhere in the notes to the financial statements, this item includes the following:

	Group	
	2018	**2017**
	$'000	**$'000**
Associate:		
Sale of goods	–	(12)
Interest income	**(46)**	(46)
Joint ventures:		
Sale of goods	**(510)**	(515)
Rental income	**(462)**	(692)
Purchases of goods	**2,600**	–
Disposal of plant and equipment	**4**	(252)
Receiving of services	**1,283**	1,411
Rental expense	–	6
Director:		
Sale of goods	**(74)**	–
Other related parties:		
Sale of goods	**(271)**	(38)
Rental income	**(162)**	(126)
Purchases of goods	**11,470**	8,318
Rental expenses	**37**	55

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

3C. Key management compensation

	Group	
	2018	2017
	$'000	$'000
Salaries and other short-term employee benefits	**2,252**	2,200

The above amount is included under employee benefits expense. Included in the above amount are the following items:

	Group	
	2018	2017
	$'000	$'000
Remuneration of director of the company	**686**	577
Fees to directors of the company	**230**	231

Further information about the remuneration of individual directors is provided in the corporate governance statement included in the annual report of the company.

Key management personnel include the directors and those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. Key management compensation comprised those of directors and other key management personnel totalling 15 (2017: 15) persons. The above amounts do not include compensation if any of certain key management personnel and directors of the company who received compensation from related companies in their capacity as directors and or executives of those companies.

3D. Other receivables from and other payables to related parties

The trade transactions and the related receivables and payables balances arising from sales and purchases of goods and services are disclosed elsewhere in the notes to the financial statements.

The movements in other receivables from and other payables to related parties are as follows:

	Group	
	2018	2017
	$'000	$'000
Joint ventures:		
Balance at beginning of the year	**494**	656
Loan to a joint venture	**1,412**	–
Amounts paid out and settlement of liabilities on behalf of the joint ventures	**1,030**	1,378
Amounts paid in and settlement of liabilities on behalf of the group	**(1,269)**	(1,540)
Balance at end of the year	**1,667**	494
Presented in the statement of financial position as follows:		
Other receivable (Note 23)	**1,712**	536
Other payable (Note 31)	**(45)**	(42)
	1,667	494

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

3D. Other receivables from and other payables to related parties (Continued)

	Group 2018 $'000	Group 2017 $'000
Other receivable from associate:		
Balance at beginning of the year	–	1,446
Loan to an associate	2,681	–
Interest income (Note 6)	46	46
Foreign exchange adjustments gains (losses)	19	(97)
Repayment of loan and interest income	(1,367)	(1,395)
Balance at end of the year (Note 23)	1,379	–

	Group 2018 $'000	Group 2017 $'000
Other receivable from other related party:		
Balance at beginning of the year	–	–
Amounts paid out and settlement of liabilities on behalf of the other related party	165	48
Amounts paid in and settlement of liabilities on behalf of the group	(124)	(48)
Balance at end of the year (Note 23)	41	–

	Group 2018 $'000	Group 2017 $'000
Other payable to director:		
Balance at beginning of the year	(2,613)	(2,176)
Amounts paid in	(126)	(437)
Balance at end of the year (Note 31)	(2,739)	(2,613)

	Group 2018 $'000	Group 2017 $'000
Other payable to shareholder:		
Balance at beginning and end of the year (Note 31)	(2,718)	(2,718)

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

3D. Other receivables from and other payables to related parties (Continued)

	Company	
	2018	**2017**
	$'000	**$'000**
Subsidiaries		
Balance at beginning of the year	**18,838**	13,931
Amounts paid out and settlement of liabilities on behalf of subsidiaries	–	159
Amounts paid in and settlement of liabilities on behalf of the company	**(3,999)**	(1,950)
Dividend income	**4,306**	6,698
Balance at end of the year	**19,145**	18,838
Presented in the statement of financial position as follows:		
Other receivables (Note 23)	**28,545**	28,238
Other payables (Note 31)	**(9,400)**	(9,400)
	19,145	18,838

4. FINANCIAL INFORMATION BY OPERATING SEGMENTS

4A. Information about reportable segment profit or loss, assets and liabilities

Disclosure of information about operating segments, products and services, the geographical areas and the major customers are made as required by the financial reporting standard on operating segments. This disclosure standard has no impact on the reported results or financial position of the reporting entity.

For management purposes, the reporting entity is organised into three major strategic operating segments: General, Project and Others. Such a structural organisation is determined by the nature of risks and returns associated with each business segment and defines the management structure as well as the internal reporting system. It represents the basis on which the management reports the primary segment information. They are managed separately because each business requires different strategies.

The goods in the General and Project segments comprise ceramic tiles, stone and wood furnishing for residential and commercial properties.

The segments and the types of products and services are as follows:

- General segment includes retail "walk-in" customers who purchase their requirements from the showrooms or customers (such as architecture, interior design and renovation firms) who make ad-hoc purchases for home renovation or small property development. The quantities purchased are typically small.

- Project segment includes customers who are usually involved in major property development projects, whether residential, commercial, public or industrial. Project customers include architecture firms, property developers and construction companies.

- Others segment relates to investing activities including net rental collected from properties.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

4. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONTINUED)

4A. Information about reportable segment profit or loss, assets and liabilities (Continued)

Inter-segment sales are measured on the basis that the entity actually used to price the transfers. Internal transfer pricing policies of the group are as far as practicable based on market prices. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The management reporting system evaluates performances based on a number of factors. However, the primary profitability measurement to evaluate segment's operating results comprises two major financial indicators: (1) earnings from operations before amortisation and depreciation, interests and income taxes ("Recurring EBITDA"); and (2) operating results before income taxes and other unallocated items ("ORBIT").

The tables below illustrated the information about the reportable segment profit or loss, assets and liabilities.

4B. Profit or loss from continuing operations and reconciliations

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
2018					
Total revenue by segment	**97,107**	**64,044**	**3,243**	**82**	**164,476**
Inter-segment sales	**(26,158)**	**(17,991)**	**(328)**	–	**(44,477)**
Total revenue	**70,949**	**46,053**	**2,915**	**82**	**119,999**
Recurring EBITDA	**15,121**	**2,004**	**2,441**	**82**	**19,648**
Amortisation and depreciation expense	**(4,418)**	**(1,011)**	**(634)**	–	**(6,063)**
Finance costs	**(3,283)**	**(266)**	**(612)**	–	**(4,161)**
Share of profit from an equity-accounted associate	–	–	**3,108**	–	**3,108**
Share of losses from equity-accounted joint ventures	–	–	**(543)**	–	**(543)**
ORBIT	**7,420**	**727**	**3,760**	**82**	**11,989**
Income tax expense					**(1,870)**
Profit, net of tax					**10,119**
2017					
Total revenue by segment	79,182	78,870	6,640	119	164,811
Inter-segment sales	(18,545)	(26,075)	(4,357)	–	(48,977)
Total revenue	60,637	52,795	2,283	119	115,834
Recurring EBITDA	11,156	3,399	1,795	119	16,469
Amortisation and depreciation expense #a	(4,710)	(921)	(478)	–	(6,109)
Finance costs #a	(3,207)	(148)	(252)	–	(3,607)
Share of profit from an equity-accounted associate	–	–	3,277	–	3,277
Share of losses from equity-accounted joint ventures	–	–	(191)	–	(191)
ORBIT	3,239	2,330	4,151	119	9,839
Income tax expense					(1,407)
Profit, net of tax					8,432

#a Reclassification has made to the comparative financial information between segments to conform to FY2018 presentation.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

4. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONTINUED)

4C. Assets, liabilities and reconciliations

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
2018:					
Segment assets	**152,943**	**64,319**	**19,190**	**–**	**236,452**
Segment liabilities	**121,913**	**42,884**	**2,846**	**–**	**167,643**
Deferred tax liabilities					**573**
Income tax payable					**2,043**
Total liabilities					**170,259**
2017:					
Segment assets	140,174	73,204	17,137	–	230,515
Segment liabilities	110,940	53,361	2,967	–	167,268
Deferred tax liabilities					580
Income tax payable					1,589
Total liabilities					169,437

4D. Other material items and reconciliations

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
Impairment of assets:					
2018	**1,732**	**175**	**–**	**–**	**1,907**
2017	1,648	195	–	–	1,843
Expenditure for non-current assets:					
2018	**1,870**	**251**	**–**	**–**	**2,121**
2017	1,986	1,151	–	–	3,137

4. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONTINUED)

4E. Geographical information

	Revenue		Non-current assets	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Singapore	**115,368**	108,475	**106,618**	110,463
People's Republic of China	**990**	721	**12,342**	12,510
Socialist Republic of Vietnam	**56**	792	**12,480**	9,784
Republic of the Union of Myanmar	**703**	472	–	–
Republic of Indonesia	**458**	496	–	–
Cambodia	**71**	3,015	–	–
Malaysia	**766**	861	–	–
Maldives	**356**	708	–	–
Others	**1,231**	294	–	–
Total continuing operations	**119,999**	115,834	**131,440**	132,757

Revenues are attributed to countries on the basis of the customer's location, irrespective of the origin of the goods and services. The non-current assets are analysed by the geographical area in which the assets are located. The non-current assets exclude any financial instruments.

4F. Information about major customers

There was no customer with sale transactions over 10% of the group's revenue during the current and previous reporting years.

5. REVENUE

A. Revenue classified by type of good or service

	Group	
	2018	2017
	$'000	$'000
Sale of goods	**110,574**	108,027
Revenue from installation services	**6,428**	5,404
Rental income (Note 36)	**2,915**	2,284
Other income	**82**	119
Total revenue	**119,999**	115,834

B. Revenue classified by duration of contract

	Group	
	2018	2017
	$'000	$'000
Short-term contracts	**113,571**	110,430
Long-term contracts	**6,428**	5,404
Total revenue	**119,999**	115,834

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

5. REVENUE (CONTINUED)

C. Revenue classified by timing of revenue recognition

	Group	
	2018	**2017**
	$'000	**$'000**
Point in time	**113,571**	110,430
Over time	**6,428**	5,404
Total revenue	**119,999**	115,834

6. INTEREST INCOME

	Group	
	2018	**2017**
	$'000	**$'000**
Interest income from an associate (Note 3)	**46**	46
Interest income from other receivables (Note 21B)	**421**	–
Other interest income	**5**	12
Total interest income	**472**	58

7. OTHER GAINS AND (OTHER LOSSES)

	Group	
	2018	**2017**
	$'000	**$'000**
Fair value gains (losses) on derivative financial instruments, net (Note 33)	**194**	(521)
Fair value (losses) gains on other financial assets, net (Note 21A)	**(163)**	98
Foreign exchange adjustment (losses) gains, net	**(257)**	181
Gain on disposal of plant and equipment	**31**	–
Government grants income	**88**	100
Insurance compensation	**72**	18
Other compensation income	**208**	41
Other payables written-off	–	20
Trade payables written-off	–	150
Others	**8**	–
Net	**181**	87
Presented in profit or loss as:		
Other gains	**601**	608
Other losses	**(420)**	(521)
	181	87

8. EMPLOYEE BENEFITS EXPENSE

	Group	
	2018	2017
	$'000	$'000
Salaries, bonuses and other short-term benefits	**16,878**	15,817
Contributions to defined contribution plan	**2,759**	2,636
Equity-settled share-based expenses	–	62
Total employee benefits expense	**19,637**	18,515

9. IMPAIRMENT LOSSES

	Group	
	2018	2017
	$'000	$'000
Allowance for impairment of inventories (Note 22)	**1,259**	1,499
Allowance for impairment of trade receivables:		
– Individually impaired (Note 23)	**297**	187
– Collectively impaired (Note 23)	**162**	–
Bad debts recovered – trade receivables	**(16)**	(60)
Bad debts written-off – trade receivables	**197**	217
Bad debts written-off – other receivables	**8**	–
Total impairment losses	**1,907**	1,843

10. FINANCE COSTS

	Group	
	2018	2017
	$'000	$'000
Interest expense on:		
– Bank loans	**3,345**	2,752
– Bill payables	**798**	824
– Finance lease liabilities	**18**	31
Total finance costs	**4,161**	3,607

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

11. OTHER EXPENSES

The major components include the following:

	Group	
	2018	2017
	$'000	$'000
Commission	**1,042**	778
Hire of vehicles and machineries	**486**	397
Land rent (Note 35)	**726**	737
Rental of premises (Note 35)	**1,471**	2,181
Upkeep of motor vehicles	**668**	644

The following profit and loss items are included in other expenses:

	Group	
	2018	2017
	$'000	$'000
Audit fees paid to:		
– Independent auditors of the company	**198**	191
– Other independent auditors	**33**	19
Non-audit fees paid to:		
– Independent auditors of the company	**82**	34

12. INCOME TAX

12A. Components of tax expense recognised in profit or loss

	Group	
	2018	2017
	$'000	$'000
Current tax expense:		
Current tax expense	**1,942**	1,433
Over adjustments in respect of prior years	**(65)**	(97)
Subtotal	**1,877**	1,336
Deferred tax (income) expense:		
Deferred tax expense (income)	**32**	(30)
(Over) under adjustments in respect of prior years	**(39)**	101
Subtotal	**(7)**	71
Total income tax expense	**1,870**	1,407

12. INCOME TAX (CONTINUED)

12A. Components of tax expense recognised in profit or loss (Continued)

The reconciliation of income taxes below is determined by applying Singapore corporate tax rate. The income tax in profit or loss varied from the amount determined by applying the Singapore income tax rate of 17% (2017: 17%) to profit before income tax as a result of the following differences:

	Group	
	2018	**2017**
	$'000	**$'000**
Profit before income tax	**11,989**	9,839
Less:		
– Share of profit from an equity-accounted associate	**(3,108)**	(3,277)
– Share of losses from equity-accounted joint ventures	**543**	191
	9,424	6,753
Income tax expense at the above rate	**1,602**	1,148
Effect of different tax rates in different countries	**28**	(15)
Expenses not deductible for tax purposes	**615**	480
Tax exemption and rebates	**(262)**	(210)
(Over) under adjustments to tax in respect of prior years	**(104)**	4
Others	**(9)**	–
Total income tax expense	**1,870**	1,407

There are no income tax consequences of dividends to owners of the company.

12B. Deferred tax (income) expense recognised in profit or loss

	Group	
	2018	**2017**
	$'000	**$'000**
Excess of net carrying amounts over tax values of property, plant and equipment	**46**	49
Provision	**(40)**	(22)
Deferred tax on inventories for unrealised profit	**(13)**	4
Others	**–**	40
Total deferred tax (income) expense	**(7)**	71

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

12. INCOME TAX (CONTINUED)

12C. Deferred tax balance in the statement of financial position

	Group		
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
Excess of net carrying amounts over tax values of property, plant and equipment	**949**	903	854
Provision	**(151)**	(111)	(89)
Deferred tax on inventories for unrealised profit	**(225)**	(212)	(216)
Others	–	–	(40)
Total deferred tax liabilities	**573**	580	509

It is impracticable to estimate the amount expected to be settled or used within one year.

13. EARNINGS PER SHARE

The following table illustrates the numerators and denominators used to calculate basic and diluted earnings per share of no par value:

	Group	
	2018	**2017**
	$'000	**$'000**
Profit, net of tax attributable to owners of the parent	**10,723**	8,745

	Number of shares	
	2018	**2017**
	'000	**'000**
Weighted average number of equity shares:		
Basic	**430,550**	429,769

The weighted average number of equity shares refers to shares in circulation during the reporting year.

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

Diluted earnings per share are the same as basic earnings per share as there were no potential dilutive ordinary shares existing during the respective reporting years.

14. DIVIDENDS ON EQUITY SHARES

	Group and Company	
	2018	**2017**
	$'000	**$'000**
Final tax exempt (1-tier) dividend paid of 0.5 cent (2017: Nil) per share	**2,153**	–
First interim tax exempt (1-tier) dividends paid of 0.5 cent (2017: 0.5 cent) per share	**2,153**	2,145
Second interim tax exempt (1-tier) dividends payable of Nil (2017: 0.5 cent) per share	–	2,153
Total dividends paid during the year	**4,306**	4,298

In respect of the current reporting year, the directors have proposed that a final dividend of 0.5 cent per share with a total of $2,153,000 be paid to shareholders after the annual general meeting. There are no income tax consequences on the company. This dividend is subject to approval by shareholders at the next annual general meeting and has not been included as a liability in these financial statements. The proposed dividend is payable in respect of all ordinary shares in issue at the end of the reporting year and including any new qualifying shares issued up to the date the dividend becomes payable.

15. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold properties $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Cost:				
At 1 January 2017	85,816	9,115	3,292	98,223
Additions	627	2,100	410	3,137
Disposals	(23)	(747)	(33)	(803)
Foreign exchange adjustments	(82)	3	(1)	(80)
At 31 December 2017	86,338	10,471	3,668	100,477
Additions	–	1,259	862	2,121
Disposals	–	(92)	(384)	(476)
Foreign exchange adjustments	(174)	(29)	(2)	(205)
At 31 December 2018	86,164	11,609	4,144	101,917
Accumulated depreciation:				
At 1 January 2017	5,654	4,950	1,813	12,417
Depreciation for the year	3,224	1,109	555	4,888
Disposals	(8)	(510)	(33)	(551)
Foreign exchange adjustments	(7)	–	–	(7)
At 31 December 2017	8,863	5,549	2,335	16,747
Depreciation for the year	3,221	1,089	533	4,843
Disposals	–	(73)	(272)	(345)
Foreign exchange adjustments	(30)	(4)	(1)	(35)
At 31 December 2018	12,054	6,561	2,595	21,210
Net carrying amount:				
At 1 January 2017	80,162	4,165	1,479	85,806
At 31 December 2017	77,475	4,922	1,333	83,730
At 31 December 2018	**74,110**	**5,048**	**1,549**	**80,707**

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Cost:			
At 1 January 2017 and 31 December 2017	2	334	336
Addition	–	470	470
Disposals	–	(334)	(334)
At 31 December 2018	2	470	472
Accumulated depreciation:			
At 1 January 2017	2	100	102
Depreciation for the year	–	67	67
At 31 December 2017	2	167	169
Depreciation for the year	–	72	72
Disposals	–	(223)	(223)
At 31 December 2018	2	16	18
Net carrying amount:			
At 1 January 2017	–	234	234
At 31 December 2017	–	167	167
At 31 December 2018	**–**	**454**	**454**

As at the end of the reporting year, the group's leasehold properties with net carrying amount of $69,804,000 (31.12.2017: $72,814,000; 01.01.2017: $75,212,000) are mortgaged for bank facilities (Note 29).

Certain motor vehicles are under finance lease agreements (Note 29).

Borrowing costs capitalised as part of the cost of leasehold properties are as follows:

		Group	
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Accumulated borrowing costs capitalised included in total costs	**1,568**	1,568	1,568

16. OTHER ASSETS, NON-CURRENT

Group	Land use rights $'000
Cost:	
At 1 January 2017	36,496
Foreign exchange adjustments	(74)
At 31 December 2017	36,422
Foreign exchange adjustments	(158)
At 31 December 2018	36,264
Accumulated amortisation:	
At 1 January 2017	3,334
Amortisation for the year	1,203
Foreign exchange adjustments	(5)
At 31 December 2017	4,532
Amortisation for the year	1,201
Foreign exchange adjustments	(19)
At 31 December 2018	5,714
Net carrying amount:	
At 1 January 2017	33,162
At 31 December 2017	31,890
At 31 December 2018	**30,550**

The land use rights relate to parcels of lands in the People's Republic of China and Singapore.

As at the end of the reporting year, the group's land use rights with net carrying amount of $26,425,000 (31.12.2017: $27,495,000; 01.01.2017: $28,565,000) are mortgaged for bank facilities (Note 29).

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

17. INVESTMENT PROPERTY

Group	Freehold land $'000	Freehold building $'000	Total $'000
Cost:			
At 1 January 2017, 31 December 2017 and 31 December 2018	3,906	370	4,276
Accumulated depreciation:			
At 1 January 2017	–	11	11
Depreciation for the year	–	18	18
At 31 December 2017	–	29	29
Depreciation for the year	–	19	19
At 31 December 2018	–	48	48
Net carrying amount:			
At 1 January 2017	3,906	359	4,265
At 31 December 2017	3,906	341	4,247
At 31 December 2018	**3,906**	**322**	**4,228**

	Group		
	31.12.2018 $'000	**31.12.2017 $'000**	**01.01.2017 $'000**
Fair value at end of the year for disclosure purposes only	**4,400**	4,050	4,050
Rental income from investment property	**113**	108	61

The investment property is leased out under operating leases. Also see Note 36 on operating lease income commitments.

The investment property is mortgaged as security for the bank facilities (Note 29).

For fair value disclosure categorised within the fair value hierarchy below, a description of the valuation techniques and the significant other observable inputs used in the fair value measurement are as follows:

Asset:	Two-storey shophouse
Location:	532 Balestier Road, Singapore 329859
Tenure:	Freehold
Fair value:	$4,400,000 (31.12.2017 and 01.01.2017: $4,050,000)
Fair value hierarchy:	Level 3 (31.12.2017 and 01.01.2017: Level 3)
Valuation technique for recurring fair value measurements:	Comparison with market evidence on recent offer of sale prices for similar properties
Significant observable inputs and range (weighted average):	Price per square meter $17,228 (31.12.2017 and 01.01.2017: $15,857)
Sensitivity on management's estimates – 10% variation from estimate:	Impact – lower by $440,000; higher by $440,000 (31.12.2017 and 01.01.2017: Impact – lower by $405,000; higher by $405,000)

17. INVESTMENT PROPERTY (CONTINUED)

The fair value of the investment property was measured by PREMAS Valuers & Property Consultants Pte. Ltd., a firm of independent professional valuers, in January 2019 based on the highest and best use method to reflect the actual market state and circumstances as of the end of the reporting year. The firm hold a recognised and relevant professional qualification with sufficient recent experience in the location and category of the investment property being valued.

Management determined that the highest and best use of the asset is the current use and that it would provide maximum value to the market participants principally through its use in combination with other assets.

18. INVESTMENTS IN SUBSIDIARIES

	Company		
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
Unquoted equity shares at cost	**9,239**	9,239	9,239

The listing of and information on the subsidiaries are given as below:

Name of subsidiaries, country of incorporation, place of operations and principal activities	**Cost in books of the company**			**Effective equity held**		
	31.12.2018	**31.12.2017**	**01.01.2017**	**31.12.2018**	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**	**%**	**%**	**%**
Hafary Pte Ltd #a Singapore Importer and dealer of building materials	**9,239**	9,239	9,239	**100**	100	100
Held through Hafary Pte Ltd:						
Surface Project Pte. Ltd. #a Singapore Distribution and wholesale of building materials				**70**	70	70
Surface Stone Pte. Ltd. #a Singapore Dealer of stones for home furnishing				**90**	90	90
Wood Culture Pte. Ltd. #a Singapore Dealer of wood for home furnishing				**100**	100	100
Hafary Centre Pte. Ltd. #a Singapore Investment holding				**100**	100	100

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The listing of and information on the subsidiaries are given as below (Continued):

Name of subsidiaries, country of incorporation, place of operations and principal activities	**Effective equity held**		
	31.12.2018 %	**31.12.2017 %**	**01.01.2017 %**
Held through Hafary Pte Ltd (Continued):			
Hafary Vietnam Pte. Ltd. #a Singapore Investment holding	**100**	100	100
Hafary International Pte. Ltd. #a Singapore Importing and distribution of building materials	**100**	100	100
Hafary Trademarks Pte. Ltd. #a Singapore Intellectual property holding and management	**100**	100	100
Marble Trends Pte. Ltd. #a Singapore Dealer of stones for home furnishing	**100**	100	100
World Furnishing Hub Pte. Ltd. #a #c #d Singapore Investment holding	**46**	46	46
Hafary Balestier Showroom Pte. Ltd. #a Singapore Investment holding	**51**	51	51
Gres Universal Pte. Ltd. #a Singapore Distribution and wholesale of building materials	**56**	56	56
Hafary Building Materials Pte. Ltd. #a Singapore Investment holding	**100**	100	–

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The listing of and information on the subsidiaries are given as below (Continued):

Name of subsidiaries, country of incorporation, place of operations and principal activities	Effective equity held		
	31.12.2018 %	31.12.2017 %	01.01.2017 %
Held through Hafary Pte Ltd) (Continued):			
Hafary W+S Pte. Ltd. #e	**100**	–	–
Singapore (Incorporated on 8 October 2018)			
Storage and warehousing of furniture and related products			
Held through Hafary International Pte. Ltd.:			
Foshan Hafary Trading Co., Limited #b	**100**	100	100
People's Republic of China			
Importing, exporting and distribution of building materials			

#a Audited by RSM Chio Lim LLP, a member firm of RSM International.

#b Audited by SBA Stone Forest CPA Co., Ltd, an alliance firm of RSM Chio Lim LLP.

#c Management considers World Furnishing Hub Pte. Ltd. ("WFH") as a subsidiary as the group has management control over WFH through its indirect interest in WFH, via a director and a substantial shareholder, and the group is exposed, or has rights, to variable returns from its involvement with WFH and has the ability to affect those returns through its power over WFH.

#d In December 2013, a put and call option deed was entered between Hafary Pte Ltd and two other shareholders of WFH, (collectively the "promoters"), and a non-controlling interest ("NCI") who holds 10% shareholdings in WFH. In accordance with the terms and conditions stated in the deed, option is granted to the NCI to require the promoters to purchase the NCI's shareholdings and vice versa.

#e The unaudited management financial statements at 31 December 2018 of subsidiary have been used for consolidation as the subsidiary is not material.

	Group		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
The carrying values of non-controlling interests are as follows:			
Surface Project Pte. Ltd.	**3,927**	4,001	3,476
World Furnishing Hub Pte. Ltd.	**(2,017)**	(1,279)	(194)
Other subsidiaries with immaterial non-controlling interests	**271**	324	270
Total	**2,181**	3,046	3,552

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the group. These are presented before inter-company eliminations.

Summarised statement of profit or loss and other comprehensive income:

Surface Project Pte. Ltd.	2018 $'000	2017 $'000
Revenue	**14,704**	23,335
Profit before income tax	**572**	2,681
Income tax expense	**(13)**	(328)
Profit, net of tax	**559**	2,353
Total comprehensive income	**559**	2,353
Total comprehensive income allocated to non-controlling interests	**168**	706
Dividends paid to non-controlling interests	**241**	182
World Furnishing Hub Pte. Ltd.		
Revenue	**3,146**	1,934
Loss before income tax	**(1,266)**	(2,271)
Income tax expense	**(100)**	–
Loss, net of tax	**(1,366)**	(2,271)
Total comprehensive loss	**(1,366)**	(2,271)
Total comprehensive loss allocated to non-controlling interests	**(738)**	(1,226)
Dividends paid to non-controlling interests	**–**	–

Summarised statement of financial position:

Surface Project Pte. Ltd.	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Current			
Assets	**13,857**	14,708	13,277
Liabilities	**(1,294)**	(1,980)	(1,918)
Total current net assets	**12,563**	12,728	11,359
Non-current			
Assets	**578**	734	235
Liabilities	**(51)**	(127)	(6)
Total non-current net assets	**527**	607	229
Net assets	**13,090**	13,335	11,588

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

World Furnishing Hub Pte. Ltd.	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Current			
Assets	**306**	257	674
Liabilities	**(12,447)**	(12,558)	(12,067)
Total current net liabilities	**(12,141)**	(12,301)	(11,393)
Non-current			
Assets	**55,304**	57,529	59,050
Liabilities	**(46,803)**	(47,502)	(47,660)
Total non-current net assets	**8,501**	10,027	11,390
Net liabilities	**(3,640)**	(2,274)	(3)

Summarised of statement of cash flows:

	2018 $'000	2017 $'000
Surface Project Pte. Ltd.		
Net cash flows from operating activities	**1,322**	696
Net cash flows from (used in) investing activities	**6**	(493)
Net cash flows used in financing activities	**(882)**	(675)
World Furnishing Hub Pte. Ltd.		
Net cash flows from operating activities	**1,676**	1,473
Net cash flows used in investing activities	**(25)**	(1,616)
Net cash flows used in financing activities	**(1,646)**	(111)

19. INVESTMENT IN AN ASSOCIATE

		Group	
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Unquoted equity shares at cost	**2,061**	2,061	2,061
Goodwill at cost	**758**	758	758
Share of post-acquisition profit, net of dividends received	**9,661**	6,965	4,269
Carrying amount	**12,480**	9,784	7,088
Movements in carrying amount:			
At beginning of the year	**9,784**	7,088	5,384
Share of profit for the year	**3,108**	3,277	1,899
Dividends	**(421)**	(209)	(195)
Foreign exchange adjustments	**9**	(372)	–
At end of the year	**12,480**	9,784	7,088

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

19. INVESTMENT IN AN ASSOCIATE (CONTINUED)

The cost of investment in the associate is denominated in Vietnamese Dong.

The details of the associate are given as below:

Name of associate, country of incorporation, place of operations and principal activities	Equity held by the group		
	31.12.2018 %	31.12.2017 %	01.01.2017 %
Viet Ceramics International Joint Stock Company ("VCI") #a Socialist Republic of Vietnam Importer and dealer of building materials	**49**	49	49

#a Audited by RSM Vietnam Auditing & Consulting Company Limited, a member firm of RSM International of which RSM Chio Lim LLP in Singapore is a member.

The summarised financial information of the associate and the amounts (and not the reporting entity's share of those amounts) based on the financial statements of the associate are as follows:

	Group		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Dividends received from the associate	**421**	209	195
Revenue	**48,842**	43,077	27,347
Profit for the year	**6,343**	6,688	3,875
Non-current assets	**3,289**	2,823	2,564
Current assets	**31,757**	24,158	19,602
Non-current liabilities	**–**	–	(381)
Current liabilities	**(11,251)**	(8,568)	(8,409)
Reconciliation:			
Net assets of the associate	**23,795**	18,413	13,376
Proportion of the group's interest in the associate	**11,660**	9,022	6,554
Goodwill on acquisition	**758**	758	758
Intangible assets on acquisition	**90**	90	90
Foreign exchange adjustments	**(28)**	(86)	(314)
	12,480	9,784	7,088

20. INVESTMENTS IN JOINT VENTURES

	Group		
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
Unquoted equity shares at cost	**3,195**	3,190	100
Share of post-acquisition (losses) profits, net of dividends	**(712)**	(84)	172
Carrying amount	**2,483**	3,106	272
Movements in carrying amount:			
At beginning of the year	**3,106**	272	318
Additions	**5**	3,090	–
Share of (losses) profits for the year	**(543)**	(191)	33
Dividends	**(15)**	(35)	(79)
Foreign exchange adjustments	**(70)**	(30)	–
At end of the year	**2,483**	3,106	272
Analysis of amounts denominated in non-functional currency:			
Chinese Renminbi	**2,268**	2,969	–

The details of the joint ventures are given as below:

Name of joint ventures, country of incorporation, place of operation and principal activities	**Equity held by the group**		
	31.12.2018	**31.12.2017**	**01.01.2017**
	%	%	%
Melmer Stoneworks Pte. Ltd. #a Singapore Cutting, shaping and finishing of stone	**50**	50	50
Guangdong ITA Element Building Materials Co., Limited #b People's Republic of China Production and distribution of tiles	**50**	50	–
Hafary Myanmar Investment Pte. Ltd. #c Singapore (Incorporated on 10 October 2018) Investment holding	**33**	–	–

#a Audited by RSM Chio Lim LLP, a member firm of RSM International.

#b Audited by SBA Stone Forest CPA Co., Ltd, an alliance firm of RSM Chio Lim LLP.

#c The unaudited management financial statements at 31 December 2018 of joint venture have been used for equity accounting purpose as the joint venture is not material.

The group jointly controls the above joint ventures with other partners under the contractual agreements that require unanimous consent or two thirds of board of directors' consent for all major decisions over the relevant activities.

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

20. INVESTMENTS IN JOINT VENTURES (CONTINUED)

The summarised financial information of the joint ventures and the amounts (and not the reporting entity's share of those amounts) based on the financial statements are as follows:

	Group		
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
Dividends received from the joint ventures	**15**	35	79
Revenue	**7,822**	3,667	4,328
(Losses) profits for the year	**(1,096)**	(382)	66
Non-current assets	**701**	772	271
Current assets	**10,813**	7,078	1,423
Non-current liabilities	**–**	(5)	(7)
Current liabilities	**(6,541)**	(1,634)	(1,143)
Reconciliation:			
Net assets of the joint ventures	**4,973**	6,211	544
Proportion of the group's interest in the joint ventures	**2,483**	3,106	272

21. OTHER FINANCIAL ASSETS, NON-CURRENT

	Group		
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
Quoted equity investment at fair value through profit or loss (Note 21A)	**423**	586	488
Unquoted investment (Note 21B)	**–**	2,050	2,081
	423	2,636	2,569

	Company		
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
Quoted equity investment at fair value through profit or loss (Note 21A)	**423**	586	488

There is no investment pledged as security for liabilities.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

21. OTHER FINANCIAL ASSETS, NON-CURRENT (CONTINUED)

21A. Quoted equity investment at fair value through profit or loss

	Group and Company		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Movements during the year:			
Fair value at beginning of the year	**586**	488	793
(Decrease) increase in fair value through profit or loss under other (losses) gains (Note 7)	**(163)**	98	(305)
Fair value at end of the year (Level 1)	**423**	586	488

The quoted equity investment is in the retail and distribution industry in Singapore and listed on Singapore Exchange.

The fair value of the financial asset approximates to bid prices in an active market at the end of the reporting year. The investment is exposed to price risk of equity shares as disclosed in Note 37H.

The quoted equity investment at fair value through profit or loss is considered to have low credit risk, and the loss allowance recognised during the reporting year is limited to 12 months expected losses.

21B. Unquoted investment

	Group		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Unquoted equity shares	–	2,162	2,162
Foreign exchange adjustments	–	(112)	(81)
Carrying amount	–	2,050	2,081
Movements in carrying amount during the year:			
At beginning of the year	**2,050**	2,081	2,178
Foreign exchange adjustments	**(66)**	(31)	(97)
Interest income (Note 6)	**421**	–	–
Reclassification to other receivables (Note 23)	**(2,405)**	–	–
At end of the year	–	2,050	2,081

The details of the unquoted investment are as below:

Name of company, country of incorporation, place of operation and principal activities	**Equity held by the group**		
	31.12.2018 **%**	**31.12.2017** **%**	**01.01.2017** **%**
Held through Foshan Hafary Trading Co., Limited			
Foshan Griffiths Building Material Co., Ltd People's Republic of China Manufacturing and distribution of tiles	–	10	10

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

21. OTHER FINANCIAL ASSETS, NON-CURRENT (CONTINUED)

21B. Unquoted investment (Continued)

The group's interest in Foshan Griffiths Building Material Co., Ltd ("Foshan Griffiths") is held in trust by a key management personnel of a subsidiary. The other 90% is owned by an external party who manages Foshan Griffiths. The group had no significant influence over Foshan Griffiths.

The investment is carried at cost less accumulated allowance for impairment prior to 1 January 2018. The group adopted SFRS(I) 9 with effective from 1 January 2018 and classified the investment as unquoted investment at fair value through profit or loss. The management assessed that the cost of investment is approximates its fair value as at 1 January 2018.

On 20 December 2018, the group entered into a shareholder withdrawal agreement with the shareholder of the investee to early withdraw the investment. The full sum invested into Foshan Griffiths and interest income will be paid to the group within the next 2 years. The rate of interest is 5.17% per annum.

In view of the above arrangements, the investment in Foshan Griffiths has been reclassified as other receivables at amortised cost as at 31 December 2018.

22. INVENTORIES

		Group	
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
Goods held for resale	**57,192**	51,250	50,876
Inventories are stated after allowance as follow:			
Balance at beginning of the year	**4,445**	2,946	2,474
Charged to profit or loss included in impairment losses (Note 9)	**1,259**	1,499	472
Balance at end of the year	**5,704**	4,445	2,946

There are no inventories pledged as security for liabilities.

23. TRADE AND OTHER RECEIVABLES

		Group	
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
Trade receivables:			
Outside parties	**28,543**	29,528	29,418
Less: Allowance for impairment	**(1,392)**	(1,155)	(1,385)
Joint venture (Note 3)	**54**	551	162
Associate (Note 3)	–	2	15
Other related parties (Note 3)	**244**	132	102
Retention receivables on contracts	**1,969**	2,343	1,662
Subtotal	**29,418**	31,401	29,974

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Group		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Other receivables:			
Outside parties #a	**2,682**	368	393
Joint ventures (Note 3) #b	**1,712**	536	656
Associate (Note 3) #c	**1,379**	–	1,446
Other related parties (Note 3)	**41**	–	–
Refundable deposits	**426**	428	1,013
Subtotal	**6,240**	1,332	3,508
Total trade and other receivables	**35,658**	32,733	33,482
Presented in the statement of financial position			
Non-current	**992**	–	–
Current	**34,666**	32,733	33,482
Balance at end of the year	**35,658**	32,733	33,482
Movements in above allowance:			
Balance at beginning of the year	**1,155**	1,385	1,155
Additions – individually impaired (Note 9)	**297**	187	567
Additions – collectively impaired (Note 9)	**162**	–	–
Bad debts written-off	**(222)**	(417)	(337)
Balance at end of the year	**1,392**	1,155	1,385

	Company		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Trade receivables:			
Outside parties	–	2	1
Subsidiaries (Note 3)	**909**	1,176	3,532
Subtotal	**909**	1,178	3,533
Other receivables:			
Subsidiaries (Note 3)	**28,545**	28,238	23,331
Total trade and other receivables	**29,454**	29,416	26,864

#a Included in other receivables is an amount of $2,405,000 (31.12.2017 and 01.01.2017: Nil) arising from withdrawal of investment as disclosed in Note 21B.

#b The loans to joint ventures are unsecured, interest-free and repayable on demand.

#c The loan to associate is unsecured, repayable in full by March 2019 and with an option to renew for 1 year. Interest is fixed at 3.5% (31.12.2017 and 01.01.2017: 3.5%) per annum.

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

As the group and company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position except for financial guarantee contracts provided to banks (Note 37E).

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

(i) Concentration of credit risk

There is no significant concentration of credit risk with respect to trade receivables as the exposure is spread over a large number of counter-parties and customers.

(ii) Credit risk exposure

The group determines concentrations of credit risk by monitoring the country of its trade receivables on an ongoing basis. The credit risk for trade receivables by countries at the end of the reporting period, approximately:

– 89% (31.12.2017: 92%; 01.01.2017: 91%) of the group's trade receivables from Singapore.

– 11% (31.12.2017: 8%; 01.01.2017: 9%) of the group's trade receivables from other countries.

At each subsequent reporting date, an evaluation is made whether there is a significant change in credit risk by comparing the debtor's credit risk at initial recognition (based on the original, unmodified cash flows) with the credit risk at the reporting date (based on the modified cash flows). Adjustment to the loss allowance is made for any increase or decrease in credit risk.

As part of the process of setting customer credit limits, different credit terms are used. The average credit period generally granted to trade receivable customers is about 60 days (31.12.2017 and 01.01.2017: 60 days). But some customers take a longer period to settle the amounts.

(a) Ageing analysis of the age of trade receivable amounts that are past due as at the end of the reporting year but not impaired:

		Group	
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
Trade receivables:			
1 to 30 days	**3,892**	3,218	3,971
31 to 60 days	**1,433**	1,838	1,651
61 to 90 days	**1,146**	1,402	866
Over 90 days	**6,051**	7,049	6,226
Total	**12,522**	13,507	12,714

(b) Ageing analysis as at the end of the reporting year of trade receivable amounts that are impaired:

		Group	
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
Trade receivables:			
Over 90 days	**1,230**	1,155	1,385

The allowance which is disclosed in the note on trade receivables is based on individual accounts totalling $1,230,000 (31.12.2017: $1,155,000; 01.01.2017: $1,385,000) of the group that are determined to be impaired at the end of the reporting year. These are not secured.

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

Expected credit losses

The trade receivables are subject to the expected credit loss model under the financial reporting standard on financial instruments. The methodology applied for impairment loss is the simplified approach to measuring expected credit losses ("ECL") which uses a lifetime expected loss allowance for all trade receivables. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates (over a period of 12 months to 18 months) over the expected life of the trade receivables and is adjusted for forward-looking estimates.

At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The loss allowance was determined as follows for trade receivables:

Group 2018	Gross amount $'000	Expected loss rate %	Loss allowance $'000
Current	**13,206**	**0.5**	**71**
1 to 30 days past due	**3,893**	**0.5**	**20**
31 to 60 days past due	**1,440**	**0.2**	**3**
61 to 90 days past due	**1,150**	**1.8**	**21**
Over 90 days past due	**5,831**	**0.8**	**47**
Total	**25,520**	**0.6**	**162**

The loss allowance of $162,000 for the group is included in the allowance for impairment of receivables amounting to $1,392,000 as at 31 December 2018. No allowance matrix is deemed necessary for the group for reporting year ended 31 December 2017 and the company. There are no collateral held as security and other credit enhancements for the trade receivables held by the group and company.

The amounts are written-off when there are indications that there is no reasonable expectation of recovery or the failure of a debtor to make contractual payments over an extended period.

The other receivables at amortised cost shown above are subject to the expected credit loss model under the financial reporting standard on financial instruments. Other receivables are regarded as of low credit risk if they have a low risk of default and the debtor has a strong capacity to meet its contractual cash flow obligations in the near term. The methodology applied for impairment loss depends on whether there has been a significant increase in credit risk.

24. OTHER FINANCIAL ASSETS, CURRENT

		Group	
	31.12.2018 $'000	**31.12.2017 $'000**	**01.01.2017 $'000**
Short-term fixed income fund	**–**	–	656

The other financial asset was an investment in a short-term fixed income fund, with a withdrawal lead period of 7 to 14 days, which was managed by a bank in the People's Republic of China. There were no restrictions on the withdrawal of funds and it is designated as available-for-sale financial asset measured at fair value through profit or loss. The financial asset was redeemed during the reporting year ended 31 December 2017.

The financial asset bore an effective interest rate of 1.96% per annum as at 1 January 2017.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

25. OTHER ASSETS, CURRENT

	Group		
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Advance payments to suppliers	**5,392**	4,516	3,878
Contract assets (Note 25A) #a	**894**	244	133
Prepayments	**84**	162	122
Deposits to secure services	**219**	217	250
Lease incentive	**79**	4	–
Total other assets	**6,668**	5,143	4,383

	Company		
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Prepayments	**9**	4	4

#a The group has adopted SFRS(I) 15 which are effective for annual reporting periods beginning on or after 1 January 2018. Adoption of SFRS(I) 15 result in the reclassification of contract assets from trade receivables to other assets.

25A. Contract assets

	Group		
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Consideration for work completed but not billed	**894**	244	133
The movements in contract assets are as follows:			
At beginning of the year	**244**	133	413
Cost incurred during the year on uncompleted contracts	**3,345**	1,116	2,267
Transfer to revenue for performance obligation satisfied	**(2,695)**	(1,005)	(2,547)
At the end of the year	**894**	244	133

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting year:

	Group		
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Expected to be recognised as revenue within 1 year	**894**	244	133

The contract assets are for: entity's rights to consideration for work completed but not billed at the reporting date on the contracts; costs incurred to obtain or fulfil a contract with a customer; costs to obtain contracts with customers; pre-contract costs and setup costs; and the amount of amortisation and any impairment losses recognised in the reporting year. The contract assets are transferred to the receivables when the rights become unconditional. The contract liabilities primarily relate to the advance consideration received from customers for which transfer of control occurs, and therefore revenue is recognised. The entity recognises revenue for each respective performance obligation when control of the goods or service transfers to the customer.

26. CASH AND CASH EQUIVALENTS

	Group		
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Not restricted in use	**6,063**	5,996	4,438

	Company		
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Not restricted in use	**26**	21	30

The interest earning balances are not significant.

26A. Non-cash transactions

During the reporting year, there were acquisitions of property, plant and equipment of $396,000 (2017: $223,000) acquired by means of finance leases.

26B. Reconciliation of purchase of property, plant and equipment arising from investing activities

	Group	
	2018	2017
	$'000	$'000
Purchase of property, plant and equipment (Note 15)	**(2,121)**	(3,137)
Acquired by means of finance leases (Note 26A)	**396**	223
Decrease in other payables for purchase of non-current assets	**(816)**	(892)
	(2,541)	(3,806)

26C. Reconciliation of liabilities arising from financing activities

	At beginning of the year $'000	Cash flows $'000	Non-cash changes $'000	At end of the year $'000
Group:				
2018				
Long-term borrowings	**86,496**	**(3,735)**	**–**	**82,761**
Short-term borrowings	**57,647**	**2,240**	**–**	**59,887**
Finance lease liabilities	**810**	**(487)**	**396 #**	**719**
Total liabilities from financing activities	**144,953**	**(1,982)**	**396**	**143,367**
2017				
Long-term borrowings	89,380	(2,884)	–	86,496
Short-term borrowings	53,132	4,515	–	57,647
Finance lease liabilities	1,185	(598)	223 #	810
Total liabilities from financing activities	143,697	1,033	223	144,953

\# Acquisition of plant and equipment.

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

27. SHARE CAPITAL

	Number of shares issued '000	Share capital $'000
Ordinary shares of no par value:		
Balance at 1 January 2017	429,000	26,634
Issuance of new ordinary shares under Hafary Performance Share Plan (Note 28B)	1,550	296
Balance at 31 December 2017 and 31 December 2018	430,550	26,930

The ordinary shares of no par value are fully paid, carry one vote each and have no right to fixed income. The company is not subject to any externally imposed capital requirements.

Capital management:

In order to maintain its listing on the Singapore Exchange, it has to have share capital with a free float of at least 10% of the shares. The company met the capital requirement on its initial listing and the rules limiting treasury share purchases mean it will continue to satisfy that requirement, as it did throughout the reporting year. Management receives a report from the share registrars frequently on substantial share interests showing the non-free float to ensure continuing compliance with the 10% limit throughout the reporting year.

The management does not set a target level of gearing but uses capital opportunistically to support its business and to add value for shareholders. The key discipline adopted is to widen the margin between the return on capital employed and the cost of that capital.

The objectives when managing capital are: to safeguard the reporting entity's ability to continue as a going concern, so that it can continue to provide returns for owners and benefits for other stakeholders, and to provide an adequate return to owners by pricing the sales commensurately with the level of risk. The management sets the amount of capital to meet its requirements and the risk taken. There were no changes in the approach to capital management during the reporting year. The management manages the capital structure and makes adjustments to it where necessary or possible in the light of changes in conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the management may adjust the amount of dividends paid to owners, return capital to owners, issue new shares, or sell assets to reduce debt. Adjusted capital comprises all components of equity (that is, share capital and reserves).

The management monitors the capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital (as shown below). Net debt is calculated as total borrowings less cash and cash equivalents.

		Group	
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Net debt:			
All current and non-current borrowings including finance lease liabilities	**143,367**	144,953	143,697
Less: Cash and cash equivalents	**(6,063)**	(5,996)	(4,438)
	137,304	138,957	139,259
Adjusted capital:			
Total equity	**66,193**	61,078	57,727
Debt-to-adjusted capital ratio	**207.4%**	227.5%	241.2%

There was a favourable change with improved retained earnings.

28. OTHER RESERVES

	Group		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Foreign currency translation reserve (Note 28A)	**(986)**	(549)	103
Equity-settled share-based compensation reserve (Note 28B)	–	–	234
	(986)	(549)	337

	Company		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Equity-settled share-based compensation reserve (Note 28B)	–	–	234

The other reserves are not available for cash dividends unless realised.

28A. Foreign currency translation reserve

	Group		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
At beginning of the year	**(549)**	103	710
Exchange differences on translating foreign operations	**(437)**	(652)	(607)
At end of the year	**(986)**	(549)	103

The foreign currency translation reserve represents exchange difference arising from the translation of the financial statements of foreign operations whose functional currencies are different from the presentation currency of the group.

28B. Equity-settled share-based compensation reserve

	Group and Company		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
At beginning of the year	–	234	119
Equity-settled share-based expenses	–	62	115
Issuance of new ordinary shares under Hafary Performance Share Plan (Note 27)	–	(296)	–
At end of the year	–	–	234

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

28. OTHER RESERVES (CONTINUED)

28B. Equity-settled share-based compensation reserve (Continued)

Hafary Performance Share Plan (the "Hafary PSP")

The Hafary PSP is intended to give the company greater flexibility in tailoring reward and incentive packages for its directors and employees, and aligning their interest with those of the company's shareholders.

Awards granted under the Hafary PSP will be principally (i) performance-based and (ii) loyalty-based. The performance targets to be set are intended to be broad-based and shall take into account both the medium-term corporate objectives of the group and the individual performance of the participant. The medium-term corporate objectives include market competitiveness, quality of returns, business growth and productivity growth. The performance targets set are based on medium-term corporate objectives, which include revenue growth, growth in earnings and return on investment. Additionally, the participant's length of service with the group, achievement of past performance targets, extent of value-adding to the group's performance and development and overall enhancement to shareholder value, inter alia, will be taken into account. The Hafary PSP may also have an extended vesting period, that is, the Awards will also incorporate a time-based service condition, to encourage participants to continue serving the group beyond the achievement date of the pre-determined performance targets.

The Hafary PSP was approved by the shareholders of the company at its annual general meeting held on 25 October 2013.

The Hafary PSP is administered by the Plan Committee, comprising the Remuneration Committee and the Chief Executive Officer, who is authorised and appointed by the Board. Members of the Plan Committee as follows:

Chow Wen Kwan Marcus (Chairman)
Ong Beng Chye
Terrance Tan Kong Hwa
Low Kok Ann

Participants in the Hafary PSP will receive awards which represent the right to receive fully paid shares of the company free of charge, upon satisfying the performance condition (determined at the discretion of the Plan Committee) and provided that the relevant participant has continued to be a group executive from the award date up to the end of the performance period. Employees who are controlling shareholders or associates of controlling shareholders shall not participate in the Hafary PSP.

During the reporting year, there is no performance shares granted, vested and cancelled under the Hafary PSP.

29. OTHER FINANCIAL LIABILITIES

	Group		
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Non-current:			
With floating interest rates:			
Bank loan F (secured) (Note 29C)	**12,117**	13,003	13,817
Bank loan H (secured) (Note 29E)	**46,744**	47,502	47,661
Bank loan I (secured) (Note 29F)	**11,159**	12,192	13,127
Bank loan J (secured) (Note 29F)	**10,044**	10,966	11,814
Bank loan K (secured) (Note 29G)	**2,697**	2,833	2,961
Subtotal	**82,761**	86,496	89,380
With fixed interest rates:			
Finance lease liabilities (secured) (Note 29I)	**319**	402	659
Non-current, total	**83,080**	86,898	90,039
Current:			
With floating interest rates:			
Bank loan A (secured) (Note 29A)	**7,750**	7,400	3,500
Bank loan B (secured) (Note 29A)	**8,000**	8,000	8,000
Bank loan C (secured) (Note 29A)	**3,500**	4,000	5,000
Bank loan D (secured) (Note 29B)	**–**	500	–
Bank loan E (secured) (Note 29B)	**500**	1,000	–
Bank loan F (secured) (Note 29C)	**825**	817	845
Bank loan G (secured) (Note 29D)	**7,750**	8,500	9,250
Bank loan H (secured) (Note 29E)	**1,500**	1,500	875
Bank loan I (secured) (Note 29F)	**1,042**	938	947
Bank loan J (secured) (Note 29F)	**937**	846	852
Bank loan K (secured) (Note 29G)	**132**	129	130
Bank loan L (secured) (Note 29A)	**2,500**	–	–
Trust receipts and bills payable (Note 29H)	**25,451**	24,017	23,733
Subtotal	**59,887**	57,647	53,132
With fixed interest rates:			
Finance lease liabilities (secured) (Note 29I)	**400**	408	526
Current, total	**60,287**	58,055	53,658
Total	**143,367**	144,953	143,697
The non-current portion is repayable as follows:			
Due within 2 to 5 years	**25,006**	23,293	23,408
After 5 years	**58,074**	63,605	66,631
Total non-current portion	**83,080**	86,898	90,039

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

29. OTHER FINANCIAL LIABILITIES (CONTINUED)

	Company		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Non-current:			
With fixed interest rates:			
Finance lease liabilities (secured) (Note 29I)	**193**	54	88
Current:			
With fixed interest rates:			
Finance lease liabilities (secured) (Note 29I)	**43**	34	33
Total	**236**	88	121
The non-current portion is repayable as follows:			
Due within 2 to 5 years	**193**	54	88

The ranges of floating interest rates per annum paid were as follows:

	Group		
	31.12.2018	31.12.2017	01.01.2017
Bank loan A (secured)	**2.08% to 3.35%**	2.47% to 2.80%	2.37% to 3.02%
Bank loan B (secured)	**2.72% to 3.35%**	2.47% to 2.80%	2.37% to 2.92%
Bank loan C (secured)	**2.52% to 3.25%**	2.38% to 2.68%	2.29% to 3.06%
Bank loan D (secured)	**2.75% to 3.26%**	2.62% to 2.90%	2.20% to 3.05%
Bank loan E (secured)	**2.95% to 3.55%**	2.90%	1.92% to 3.00%
Bank loan F (secured)	**1.58% to 2.08%**	2.00%	2.00% to 3.47%
Bank loan G (secured)	**2.72% to 3.47%**	2.47% to 2.80%	2.37% to 2.90%
Bank loan H (secured)	**2.42% to 3.34%**	2.14%	2.10% to 2.14%
Bank loan I (secured)	**1.88% to 3.14%**	2.18% to 2.71%	2.18%
Bank loan J (secured)	**1.88% to 3.14%**	2.18% to 2.71%	2.18%
Bank loan K (secured)	**1.88% to 2.53%**	2.02% to 2.36%	2.02% to 2.15%
Bank loan L (secured)	**2.76% to 3.26%**	–	–
Trust receipts and bills payable	**1.20% to 3.75%**	1.20% to 3.25%	1.20% to 3.25%

The range of fixed interest rates per annum paid for finance lease liabilities and their average lease terms were as follows:

	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Group			
Rates per annum	**1.30% to 2.28%**	1.10% to 2.28%	1.10% to 2.28%
Average lease term in years	**1 to 5**	1 to 3	1 to 4
Company			
Rates per annum	**2.28%**	2.28%	2.28%
Average lease term in years	**5**	3	4

29. OTHER FINANCIAL LIABILITIES (CONTINUED)

29A. Bank loans A, B, C and L (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by one lump sum within 6 months (unless rolled over for another interest period of up to 6 months).
(ii) Legal mortgage on certain leasehold properties (Note 15) and land use rights (Note 16).
(iii) Corporate guarantee from the company.
(iv) Need to comply with certain financial covenants.

29B. Bank loans D and E (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by one lump sum within 6 months (unless rolled over for another interest period of up to 6 months).
(ii) Corporate guarantee from the company.
(iii) Need to comply with certain financial covenants.

29C. Bank loan F (secured)

These relate to two loan facilities. The agreements for the bank loans provide among other matters for the following:

(i) Repayable by equal monthly instalments over 20 years from November 2011 and July 2013 respectively.
(ii) Legal mortgage on certain leasehold properties (Note 15) and land use rights (Note 16).
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

29D. Bank loan G (secured)

The agreement for the bank loan provides among other matters for the following:

(i) Repayable by one lump sum within 6 months (unless rolled over for another interest period of up to 6 months), subject to yearly reduction of $750,000 over 8 years until the limit is reduced to $4,000,000.
(ii) Legal mortgage on certain leasehold properties (Note 15) and land use rights (Note 16).
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

29. OTHER FINANCIAL LIABILITIES (CONTINUED)

29E. Bank loan H (secured)

The agreement for the bank loan provides among other matters for the following:

(i) Repayable by over 3 years fixed principal instalment of $125,000 each and remaining by equal monthly instalments over 12 years commencing from May 2017.
(ii) Legal mortgage on a leasehold property (Note 15) and land use right (Note 16).
(iii) Legal assignment of construction contract, insurance policies, performance bonds (if any), tenancy agreements and sale and purchase agreement in respect of the proposed development.
(iv) Joint and several corporate guarantees from the company and a subsidiary.
(v) Personal guarantees from a director and a substantial shareholder.
(vi) Need to comply with certain financial covenants.

29F. Bank loans I and J (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by equal monthly instalments over 14 years from January 2016.
(ii) Legal mortgage on certain leasehold properties (Note 15) and land use rights (Note 16).
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

29G. Bank loan K (secured)

The agreement for the bank loan provides among other matters for the following:

(i) Repayable by equal monthly instalments over 20 years from July 2016.
(ii) Legal mortgage on a freehold property (Note 15).
(iii) Assignment of rental proceeds.
(iv) Corporate guarantee from the company.
(v) Personal guarantee from a director.
(vi) Need to comply with certain financial covenants.

29H. Trust receipts and bills payable

These are repayable within 150 to 180 days (31.12.2017 and 01.01.2017: 150 to 180 days) and are guaranteed by the company.

29. OTHER FINANCIAL LIABILITIES (CONTINUED)

29I. Finance lease liabilities

Group: 31 December 2018	Minimum payments $'000	Finance charges $'000	Present value $'000
Minimum lease payments payable:			
Due within one year	**418**	**(18)**	**400**
Due within 2 to 5 years	**339**	**(20)**	**319**
Total	**757**	**(38)**	**719**
Net carrying amounts of motor vehicles under finance lease liabilities			**1,434**
31 December 2017			
Minimum lease payments payable:			
Due within one year	426	(18)	408
Due within 2 to 5 years	409	(7)	402
Total	835	(25)	810
Net carrying amounts of motor vehicles under finance lease liabilities			1,517
1 January 2017			
Minimum lease payments payable:			
Due within one year	552	(26)	526
Due within 2 to 5 years	679	(20)	659
Total	1,231	(46)	1,185
Net carrying amounts of motor vehicles under finance lease liabilities			1,600

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

29. OTHER FINANCIAL LIABILITIES (CONTINUED)

29I. Finance lease liabilities (Continued)

Company: 31 December 2018	Minimum payments $'000	Finance charges $'000	Present value $'000
Minimum lease payments payable:			
Due within one year	**53**	**(10)**	**43**
Due within 2 to 5 years	**210**	**(17)**	**193**
Total	**263**	**(27)**	**236**
Net carrying amounts of motor vehicle under finance lease liability			**454**
31 December 2017			
Minimum lease payments payable:			
Due within one year	37	(3)	34
Due within 2 to 5 years	56	(2)	54
Total	93	(5)	88
Net carrying amounts of motor vehicle under finance lease liability			167
1 January 2017			
Minimum lease payments payable:			
Due within one year	38	(5)	33
Due within 2 to 5 years	93	(5)	88
Total	131	(10)	121
Net carrying amounts of motor vehicle under finance lease liability			234

All leases are on fixed repayment basis and no arrangements have been entered into for contingent rental payments. The obligations under finance lease liabilities are secured by the lessors' charge over the leased assets and covered by corporate guarantees from the company.

30. PROVISION

		Group	
	31.12.2018 $'000	**31.12.2017 $'000**	**01.01.2017 $'000**
Provision for rebates	**891**	653	523
Movements in above provision:			
Balance at beginning of the year	**653**	523	525
Additions	**891**	653	523
Used	**(653)**	(523)	(525)
Balance at end of the year	**891**	653	523

The group gives rebates to its customers upon settlement of balances within average credit period granted i.e. 60 days (31.12.2017 and 01.01.2017: 60 days).

31. TRADE AND OTHER PAYABLES

	Group		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Trade payables:			
Outside parties and accrued liabilities	**10,452**	9,909	13,547
Joint ventures (Note 3)	**98**	282	328
Other related parties (Note 3)	**3,175**	2,434	570
Subtotal	**13,725**	12,625	14,445
Other payables:			
Outside parties	**1,608**	1,117	1,113
For purchase of non-current assets	–	873	8
Retention payable for construction of a leasehold property	–	–	1,700
Joint venture (Note 3)	**45**	42	–
Director (Note 3)	**2,739**	2,613	2,176
Shareholder (Note 3)	**2,718**	2,718	2,718
Subtotal	**7,110**	7,363	7,715
Total trade and other payables	**20,835**	19,988	22,160

	Company		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Trade payables:			
Outside parties and accrued liabilities	**782**	705	712
Other payables:			
Subsidiaries (Note 3)	**9,400**	9,400	9,400
Total trade and other payables	**10,182**	10,105	10,112

32. OTHER LIABILITIES

	Group		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Advance payments from customers	**2,481**	1,423	1,005
Deferred rental income	**17**	17	17
Lease incentives	**17**	5	–
Total other liabilities	**2,515**	1,445	1,022

33. DERIVATIVE FINANCIAL (LIABILITIES) ASSETS

	Group		
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Forward foreign exchange contracts	**(35)**	(229)	292
The movements during the year were as follows:			
Balance at beginning of the year	**(229)**	292	44
Increase (decrease) in fair value through profit or loss under other (losses) gains (Note 7)	**194**	(521)	248
Balance at end of the year	**(35)**	(229)	292

33A. Forward foreign exchange contracts

The gross amounts of all notional values for contracts that have not yet been settled or cancelled at the end of the reporting year were as follows:

Group:	Reference currency – United States Dollar		Reference currency – Euro		Total
Maturity	Principal	Fair value	Principal	Fair value	Fair value
31 December 2018:	US$'000	$'000	€'000	$'000	$'000
Within 2 months	**294**	**(1)**	**1,329**	**(24)**	**(25)**
Within 3 to 4 months	–	–	**2,221**	**(10)**	**(10)**
	294	**(1)**	**3,550**	**(34)**	**(35)**
31 December 2017:					
Within 2 months	2,184	(45)	1,265	(29)	(74)
Within 3 to 4 months	2,714	(55)	1,784	(26)	(81)
Within 5 to 6 months	3,576	(62)	1,510	(2)	(64)
Within 7 to 8 months	400	(10)	–	–	(10)
	8,874	(172)	4,559	(57)	(229)
1 January 2017:					
Within 2 months	1,966	177	938	(7)	170
Within 3 to 4 months	1,439	66	1,380	(9)	57
Within 5 to 6 months	2,600	63	1,471	1	64
Within 7 to 8 months	200	–	800	1	1
	6,205	306	4,589	(14)	292

The amount of notional value outstanding is not necessarily a measure or indication of market risk, as the exposure of certain contracts may be offset by that of other contracts.

The purpose of these contracts is to mitigate the fluctuations of expected purchases (forecast transactions) denominated in the foreign currencies indicated above. The forward currency contracts are put in place in order to hedge the anticipated purchases that will be made in the foreign currencies indicated over the next reporting year.

The fair value (Level 2) of forward foreign exchange contracts is based on current value of the difference between the contractual exchange rate and the market rate at the end of the reporting year. The valuation technique uses market observable inputs.

34. CAPITAL COMMITMENTS

Estimated amounts committed at the end of the reporting year for future capital expenditure but not recognised in the financial statements are as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Commitments to purchase property, plant and equipment	**178**	68

35. OPERATING LEASE PAYMENT COMMITMENTS

At the end of the reporting year, the total of future minimum lease payment commitments under non-cancellable operating leases are as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Not later than one year	**1,823**	2,141
Later than one year and not later than five years	**3,202**	4,429
Later than five years	**12,601**	13,811
Rental expenses for the year (Note 11)	**2,197**	2,918

Operating lease payments are for land rentals payable for the group's leasehold properties and rental payable for warehousing and retail shops. The leases from Jurong Town Corporation are for fourteen to forty-eight years and rentals are subject to an escalation clause but the amount of rent increase is not to exceed a certain percentage. The lease rental terms, except for leases from Jurong Town Corporation, are negotiated for terms of one to three years.

36. OPERATING LEASE INCOME COMMITMENTS

At the end of the reporting year, the total of future minimum lease receivables committed under non-cancellable operating leases are as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Not later than one year	**3,090**	2,143
Later than one year and not later than five years	**3,324**	2,324
Later than five years	**–**	–
Rental income for the year (Note 5)	**2,915**	2,284

Operating lease income commitments are for certain leasehold and freehold properties. The lease rental income terms are negotiated for an average term of three years and rentals are subject to an escalation clause but the amount of rent increase is not to exceed a certain percentage.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

37. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

37A. Categories of financial assets and liabilities

The following table categorises the carrying amount of financial assets and liabilities recorded at the end of the reporting year:

		Group	
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Financial assets:			
Financial assets at amortised cost	**41,721**	38,729	37,920
Derivatives financial instruments at fair value	–	–	292
Financial assets at fair value through profit or loss	**423**	586	488
Other financial assets at cost	–	2,050	2,081
Available-for-sale financial assets at fair value through profit or loss	–	–	656
	42,144	41,365	41,437
Financial liabilities:			
Financial liabilities at amortised cost	**164,202**	164,941	165,857
Derivatives financial instruments at fair value	**35**	229	–
	164,237	165,170	165,857

		Company	
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Financial assets:			
Financial assets at amortised cost	**29,480**	29,437	26,894
Financial assets at fair value through profit or loss	**423**	586	488
	29,903	30,023	27,382
Financial liabilities:			
Financial liabilities at amortised cost	**10,418**	10,193	10,233
	10,418	10,193	10,233

Further quantitative disclosures are included throughout these financial statements.

37. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONTINUED)

37B. Financial risk management

The main purpose for holding or issuing financial instruments is to raise and manage the finances for the entity's operating, investing and financing activities. There are exposures to the financial risks on the financial instruments such as credit risk, liquidity risk and market risk comprising interest rate risk, currency risk and price risk exposures. Management has certain practices for the management of financial risks. The guidelines set up the short and long term objectives and action to be taken in order to manage the financial risks. The guidelines include the following:

(i) Minimise interest rate, currency, credit and market risk for all kinds of transactions.
(ii) Maximise the use of "natural hedge": favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency and therefore put in place hedging strategies only for the excess balance. The same strategy is pursued with regard to interest rate risk.
(iii) All financial risk management activities are carried out and monitored by senior management staff.
(iv) All financial risk management activities are carried out following market practices.
(v) When appropriate, consideration is given to investing in shares or similar instruments.
(vi) When appropriate, consideration is given to entering into derivatives or any other similar instruments solely for hedging purposes.

The finance manager who monitors the procedures and reports to the audit committee of the board.

There have been no changes to the exposures to risks, the objectives, policies and processes for managing the risks and the methods used to measure the risks.

37C. Fair values of financial instruments

The analyses of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 are disclosed in the relevant notes to the financial statements. These include both the significant financial instruments stated at amortised cost and at fair value in the statement of financial position. The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value.

37D. Credit risk on financial assets

Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner. These arise principally from cash balances with banks, cash equivalents, receivables and other financial assets. The maximum exposure to credit risk is the total of the fair value of the financial assets at the end of the reporting year. Credit risk on cash balances with banks and any other financial instruments is limited because the counter-parties are entities with acceptable credit ratings. For expected credit losses ("ECL") on financial assets, a simplified approach is permitted by the financial reporting standards on financial instruments for financial assets that do not have a significant financing component, such as trade receivables. On initial recognition, a day-1 loss is recorded equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For credit risk on trade receivables an ongoing credit evaluation is performed on the financial condition of the debtors and an impairment loss is recognised in profit or loss. Reviews and assessments of credit exposures in excess of designated limits are made. Renewals and reviews of credits limits are subject to the same review process.

37. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONTINUED)

37D. Credit risk on financial assets (Continued)

The group's and company's major classes of financial assets are bank deposits and trade receivables.

Note 26 discloses the maturity of the cash and cash equivalents balances. Cash and cash equivalents are also subject to the impairment requirements of the standard on financial instruments. There was no identified impairment loss.

Other receivables are normally with no fixed terms and therefore there is no maturity.

37E. Liquidity risk – financial liabilities maturity analysis

The following table analyses the non-derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

Group	Less than 1 year $'000	2 to 5 years $'000	More than 5 years $'000	Total $'000
31 December 2018:				
Gross borrowings commitments	**63,762**	**33,138**	**65,156**	**162,056**
Gross finance lease obligations	**418**	**339**	**–**	**757**
Trade and other payables	**20,835**	**–**	**–**	**20,835**
	85,015	**33,477**	**65,156**	**183,648**
31 December 2017:				
Gross borrowings commitments	61,093	30,315	70,596	162,004
Gross finance lease obligations	426	409	–	835
Trade and other payables	19,988	–	–	19,988
	81,507	30,724	70,596	182,827
1 January 2017:				
Gross borrowings commitments	56,280	29,456	73,759	159,495
Gross finance lease obligations	552	679	–	1,231
Trade and other payables	22,160	–	–	22,160
	78,992	30,135	73,759	182,886

37. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONTINUED)

37E. Liquidity risk – financial liabilities maturity analysis (Continued)

Company	Less than 1 year $'000	2 to 5 years $'000	Total $'000
31 December 2018:			
Gross finance lease obligations	**53**	**210**	**263**
Trade and other payables	**10,182**	**–**	**10,182**
	10,235	**210**	**10,445**
31 December 2017:			
Gross finance lease obligations	37	56	93
Trade and other payables	10,105	–	10,105
	10,142	56	10,198
1 January 2017:			
Gross finance lease obligations	38	93	131
Trade and other payables	10,112	–	10,112
	10,150	93	10,243

The undiscounted amounts on the borrowings with fixed and floating interest rates are determined by reference to the conditions existing at the report date.

The following table analyses the derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

	Less than 1 year		
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Group			
Forward currency forward contracts	**5,998**	19,396	15,711

The above amounts disclosed in the maturity analysis are the contractual undiscounted cash flows and such undiscounted cash flows differ from the amount included in the statements of financial position. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to pay.

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

37. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONTINUED)

37E. Liquidity risk – financial liabilities maturity analysis (Continued)

Financial guarantee contracts – For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. At the end of the reporting year, no claims on the financial guarantees are expected to be payable. The following table shows the maturity analysis of the contingent liabilities from financial guarantees:

Company	Less than 1 year $'000	2 to 5 years $'000	More than 5 years $'000	Total $'000
31 December 2018:				
Financial guarantee contracts in favour of subsidiaries (Note 3)	**59,089**	**18,147**	**40,448**	**117,684**
31 December 2017:				
Financial guarantee contracts in favour of subsidiaries (Note 3)	56,850	17,113	44,788	118,751
1 January 2017:				
Financial guarantee contracts in favour of subsidiaries (Note 3)	52,641	16,356	48,280	117,277

The liquidity risk refers to the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is expected that all the liabilities will be paid at their contractual maturity. The average credit period taken to settle trade payables is about 60 days (31.12.2017 and 01.01.2017: 60 days). The other payables are with short-term durations. The classification of the financial assets is shown in the statements of financial position as they may be available to meet liquidity needs and no further analysis is deemed necessary. In order to meet such cash commitments, the operating activities are expected to generate sufficient cash inflows.

37F. Interest rate risk

The interest rate risk exposure is from changes in fixed and floating interest rates and it mainly concerns financial liabilities which are both fixed rate and floating rate. The interest from financial assets including cash balances is not significant.

The following table analyses the breakdown of the significant financial instruments by type of interest rate at the end of the reporting year:

		Group	
	31.12.2018 $'000	31.12.2017 $'000	01.01.2017 $'000
Financial liabilities:			
Fixed rates	**719**	810	1,185
Floating rates	**142,648**	144,143	142,512
	143,367	144,953	143,697

37. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONTINUED)

37F. Interest rate risk (Continued)

	Company		
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Financial liabilities:			
Fixed rates	**236**	88	121

The floating rate debt instruments are with interest rates that are re-set regularly at one, three or six month intervals. The interest rates are disclosed in the respective notes.

Sensitivity analysis:

	Group		
	31.12.2018	31.12.2017	01.01.2017
	$'000	$'000	$'000
Financial liabilities:			
A hypothetical increase in interest rates by 100 basis points with all other variables held constant would have decreased pre-tax profit for the year	**1,426**	1,441	1,425

The analysis has been performed for fixed interest rate and floating interest rate over a year for financial instruments. The impact of a change in interest rates on fixed interest rate financial instruments has been assessed in terms of changing of their fair value. The impact of a change in interest rates on floating interest rate financial instruments has been assessed in terms of changing of their cash flows and therefore in terms of the impact on net expenses. The hypothetical changes in basis points are not based on observable market data (unobservable inputs).

37G. Foreign currency risk

Foreign exchange risk arises on financial instruments that are denominated in a foreign currency, ie in a currency other than the functional currency in which they are measured. For the purpose of this financial reporting standard on financial instruments: disclosures, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

37. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONTINUED)

37G. Foreign currency risk (Continued)

Analysis of amounts of financial assets and financial liabilities denominated in non-functional currencies at end of the reporting year is as follows:

Group: 31 December 2018:	United States Dollar $'000	Euro $'000	Vietnamese Dong $'000	Malaysia Ringgit $'000	Total $'000
Financial assets:					
Cash and cash equivalents	**886**	**–**	**1,029**	**–**	**1,915**
Loans and receivables	**1,360**	**–**	**–**	**97**	**1,457**
Total financial assets	**2,246**	**–**	**1,029**	**97**	**3,372**
Financial liabilities:					
Other financial liabilities	**–**	**(9,515)**	**–**	**–**	**(9,515)**
Trade and other payables	**(2,740)**	**(316)**	**–**	**–**	**(3,056)**
Total financial liabilities	**(2,740)**	**(9,831)**	**–**	**–**	**(12,571)**
Net financial (liabilities) assets	**(494)**	**(9,831)**	**1,029**	**97**	**(9,199)**
31 December 2017:					
Financial assets:					
Cash and cash equivalents	553	–	609	–	1,162
Loans and receivables	1,056	–	–	–	1,056
Total financial assets	1,609	–	609	–	2,218
Financial liabilities:					
Other financial liabilities	(12,040)	(8,694)	–	–	(20,734)
Trade and other payables	(2,112)	(367)	–	–	(2,479)
Total financial liabilities	(14,152)	(9,061)	–	–	(23,213)
Net financial (liabilities) assets	(12,543)	(9,061)	609	–	(20,995)
1 January 2017:					
Financial assets:					
Cash and cash equivalents	–	–	431	–	431
Loans and receivables	2,288	–	–	–	2,288
Total financial assets	2,288	–	431	–	2,719
Financial liabilities:					
Other financial liabilities	(11,478)	(6,896)	–	–	(18,374)
Trade and other payables	(1,254)	(263)	–	–	(1,517)
Total financial liabilities	(12,732)	(7,159)	–	–	(19,891)
Net financial (liabilities) assets	(10,444)	(7,159)	431	–	(17,172)

There is exposure to foreign currency risk as part of the group's normal business. In particular, there is significant exposure to United States Dollar and Euro currency risk due to the large value of purchases denominated in these currencies and the group sells its goods in Singapore Dollar. In this respect, forward currency contracts are entered into for the purpose of hedging the purchases in United States Dollar and Euro. Note 33A disclosed the forward currency contracts in place at the end of the reporting year.

37. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONTINUED)

37G. Foreign currency risk (Continued)

Sensitivity analysis:

	Group		
	31.12.2018	**31.12.2017**	**01.01.2017**
	$'000	**$'000**	**$'000**
A hypothetical 10% strengthening in the exchange rate of the functional currency against the following currencies with all other variables held constant would have a favourable (adverse) effect on pre-tax profit of:			
United States Dollar	**49**	1,254	1,044
Euro	**983**	906	716
Vietnamese Dong	**(103)**	(61)	(43)
Malaysia Ringgit	**(10)**	–	–

The above table shows sensitivity to a hypothetical 10% variation in the functional currency against the relevant non-functional foreign currencies. The sensitivity rate used is the reasonably possible change in foreign exchange rates. For similar rate weakening of the functional currency against the relevant foreign currencies above, there would be comparable impacts in the opposite direction.

The hypothetical changes in exchange rates are not based on observable market data (unobservable inputs). The sensitivity analysis is disclosed for each non-functional currency to which the group has significant exposure at the end of the reporting year. The analysis above has been carried out on the basis that there are no hedged transactions.

In management's opinion, the above sensitivity analysis is unrepresentative of the foreign currency risk as the historical exposure does not reflect the exposure in future.

37H. Equity price risk

There are investments in equity shares or similar instruments. Such investments are exposed to market price risk arising from uncertainties about future values of the investment securities.

Sensitivity analysis: The effect on pre-tax profit is not significant.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

38. CHANGES AND ADOPTION OF FINANCIAL REPORTING STANDARDS

The accounting policies adopted are consistent with those previously applied under FRS except that in the current financial year, the group has adopted all the SFRS(I) which are effective for annual reporting periods beginning on or after 1 January 2018.

For the current reporting year new or revised financial reporting standards were issued by the Singapore Accounting Standards Council. Those applicable to the reporting entity are listed below:

SFRS (I) No.	Title
SFRS(I) 1-28	Amendments to, Investments in Associates and Joint Venture – Sale or Contribution of Assets
SFRS(I) 1-40	Amendments to, Transfer of Investment Property
SFRS(I) 1	First-time Adoption of Singapore Financial Reporting Standards (International)
SFRS(I) 2	Amendments to, Classification and Measurement of Share-based Payment Transactions
SFRS(I) 9	Financial Instruments
SFRS(I) 15	Revenue from Contracts with Customers
	Amendments to, Clarifications to SFRS(I) 15 Revenue from Contracts with Customers
SFRS(I) INT 22	Foreign Currency Transactions and Advance Consideration

The above applicable new or revised standards did not require any significant modification of the measurement methods or the presentation in the financial statements except as disclosed in Note 40.

39. NEW OR AMENDED STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

For the future reporting years certain new or revised financial reporting standards were issued by the Singapore Accounting Standards Council and these will only be effective for future reporting years. Adoption of the applicable new or revised standards are expected to result in some changes in the detailed application of the accounting policies and some modifications to financial statements presentation and measurement.

SFRS (I) No.	Title	Effective date for periods beginning on or after
SFRS(I) 1-28	Amendments: Long-Term Interests In Associates And Joint Ventures	1 January 2019
SFRS(I) 16	Leases (and Leases – Illustrative Examples & Amendments to Guidance on Other Standards)	1 January 2019
SFRS(I) 1-12	Improvements (2017) – Amendments: Income Taxes	1 January 2019
SFRS(I) 1-23	Improvements (2017) – Amendments: Borrowing Costs	1 January 2019
SFRS(I) 11	Improvements (2017) – Amendments: Joint Arrangements	1 January 2019
SFRS(I) 10 and SFRS(I) 1-28	Sale or Contribution of Assets between and Investor and its Associate or Joint Venture	Not fixed yet

39. NEW OR AMENDED STANDARDS IN ISSUE BUT NOT YET EFFECTIVE (CONTINUED)

Those that are expected to have a material impact are described below:

SFRS(I) 16 Leases

The financial reporting standard on leases is effective for annual periods beginning on or after 1 January 2019 and it supersedes the previous reporting standard and the related interpretations on leases. For the lessor, the accounting remains largely unchanged. As for the finance leases of a lessee, as the financial statements have already recognised an asset and a related finance lease liability for the lease arrangement, the application of the new reporting standard on leases is not expected to have a material impact on the amounts recognised in the financial statements. For the lessee almost all leases will be brought onto the statements of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases.

For the entity's non-cancellable operating lease commitments of $17,626,000 as at 31 December 2018 shown in Note 35, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under the new reporting standard on leases. Thus, the entity will have to recognise a right-of-use asset and a corresponding liability in respect of all these leases (unless they qualify for low value or short-term leases) which might have a material impact on the amounts recognised in the financial statements.

The table below shows the amount by which each financial statement line item is impacted (debits/(credits)) in the reporting year 2019 by the application of the new standard on leases:

	Group 31.12.2018 $'000
Statement of financial position:	
Right to use assets	**11,855**
Lease liabilities	**(12,158)**

The impact on profit, net of tax is not material.

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2018

40. CHANGES IN ACCOUNTING POLICIES AND RESTATEMENTS OF COMPARATIVE FIGURES

Effective from beginning of the current reporting year certain new or revised financial reporting standards were adopted as disclosed in Note 38. Adoption of those policies and any other changes have resulted in some changes in the application of the accounting policies and some modifications to financial statement presentation and these changes are summarised below. The group also reclassified certain balances to conform with the parent company's presentation of financial statements.

		After restatement $'000	Before restatement $'000	Difference $'000
Group:				
1 January 2017 Statement of financial position:				
Property, plant and equipment	#A	85,806	114,371	(28,565)
Other assets, non-current	#A	33,162	4,597	28,565
Trade and other receivables	#B	33,482	33,615	(133)
Other assets, current	#B	4,383	4,250	133
31 December 2017 Statement of financial position:				
Property, plant and equipment	#A	83,730	111,225	(27,495)
Other assets, non-current	#A	31,890	4,395	27,495
Trade and other receivables	#B	32,733	32,977	(244)
Other assets, current	#B	5,143	4,899	244
2017 Consolidated statement of cash flows:				
Depreciation of property, plant and equipment	#A	4,888	5,958	(1,070)
Amortisation of other assets, non-current	#A	1,203	133	1,070
Trade and other receivables	#B	(646)	(757)	111
Other assets, current	#B	(760)	(649)	(111)

The restatement was made so as to enhance comparability with current year's balance in the financial statement:

#A The changes are reclassification of land use rights from property, plant and equipment to other assets, non-current to conform with the parent company's presentation of financial statements.

#B The changes are for the contract assets not included under trade receivables.

There are no changes to other components of the financial statements.

STATISTICS OF SHAREHOLDINGS
AS AT 15 MARCH 2019

Number of shares	:	430,550,000
Class of equity securities	:	Ordinary
Voting rights	:	One vote per ordinary share
Treasury shares and subsidiary holdings held	:	NIL

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	–	–	–	–
100 – 1,000	24	3.48	12,600	–*
1,001 – 10,000	177	25.65	1,221,210	0.29
10,001 – 1,000,000	474	68.70	31,823,950	7.39
1,000,001 AND ABOVE	15	2.17	397,492,240	92.32
TOTAL	690	100.00	430,550,000	100.00

* Less than 0.01%

SUBSTANTIAL SHAREHOLDERS
(As recorded in the Register of Substantial Shareholders)

	DIRECT INTEREST	%	DEEMED INTEREST	%
HAP SENG INVESTMENT HOLDINGS PTE LTD[1]	–	–	218,790,000	50.82
HAP SENG CONSOLIDATED BERHAD[2]	–	–	218,790,000	50.82
GEK POH (HOLDINGS) SDN BHD[2]	–	–	218,790,000	50.82
MAGIC PRINCIPLE ASSETS LIMITED[3]	–	–	218,790,000	50.82
HSBC INTERNATIONAL TRUSTEE LIMITED[3]	–	–	218,790,000	50.82
TAN SRI DATUK SERI PANGLIMA LAU CHO KUN @ LAU YU CHAK[4]	–	–	218,790,000	50.82
LOW KOK ANN[5]	35,539,003	8.25	–	–
LOW SEE CHING[5]	113,900	0.03	69,553,400	16.15
CHING CHIAT KWONG	412,200	0.09	32,327,530	7.51

Notes:

(1) 218,790,000 ordinary shares are held in the name of Maybank Nominees (Singapore) Private Limited.

(2) Gek Poh (Holdings) Sdn. Bhd. ("GPH") holds a 60.83% comprising direct and indirect interest of 54.63% and 6.20% respectively in Hap Seng Consolidated Berhad ("HSCB"), which wholly-owns Hap Seng Investment Holdings Pte Ltd ("HSIHPL"). GPH and HSCB are each deemed to be interested in the 218,790,000 shares which HSIHPL is interested in, pursuant to Section 7 of the Companies Act, Chapter 50 ("the Act").

(3) Magic Principle Assets Limited ("MPAL") holds a 44% interest in GPH, and is wholly-owned by HSBC International Trustee Limited ("HSBC"). MPAL and HSBC are deemed interested in the 218,790,000 shares which HSIHPL is interested in, pursuant to Section 7 of the Act.

(4) Tan Sri Datuk Seri Panglima Lau Cho Kun @ Lau Yu Chak holds a 56% interest in GPH, and is deemed to be interested in the 218,790,000 shares which HSIHPL is interested in, pursuant to Section 7 of the Act.

(5) Low Kok Ann is the father of Low See Ching.

(6) 12,387,700 ordinary shares are held in the name of Citibank Nominees Singapore Pte Ltd, 19,665,700 ordinary shares are held in the name of OCBC Securities Private Limited, 32,500,000 ordinary shares are held in the name of Hong Leong Finance Nominees Pte Ltd and 5,000,000 ordinary shares are held in the name of DB Nominees (Singapore) Pte Ltd.

(7) 6,081,400 ordinary shares are held in the name of Citibank Nominees Singapore Pte Ltd, 18,080,700 ordinary shares are held in the name of DB Nominees (Singapore) Pte Ltd and 8,165,430 ordinary shares are held in the name of Raffles Nominees (Pte) Limited.

STATISTICS OF SHAREHOLDINGS

AS AT 15 MARCH 2019

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	MAYBANK NOMINEES (SINGAPORE) PRIVATE LIMITED	218,790,000	50.82
2	LOW KOK ANN	35,539,003	8.25
3	HONG LEONG FINANCE NOMINEES PTE LTD	34,797,000	8.08
4	DB NOMINEES (SINGAPORE) PTE LTD	23,091,700	5.36
5	OCBC SECURITIES PRIVATE LIMITED	21,184,100	4.92
6	CITIBANK NOMINEES SINGAPORE PTE LTD	19,696,700	4.57
7	LOW BEE LAN AUDREY	16,536,707	3.84
8	RAFFLES NOMINEES (PTE.) LIMITED	9,078,250	2.11
9	TEE WEE SIEN (ZHENG WEIXIAN)	8,433,000	1.96
10	UOB KAY HIAN PRIVATE LIMITED	2,789,000	0.65
11	PHOON WAIE KUAN	2,295,480	0.53
12	DBS NOMINEES (PRIVATE) LIMITED	1,698,700	0.39
13	LOW EE HWEE	1,277,200	0.30
14	NOVA FURNISHING HOLDINGS PTE LTD	1,249,300	0.29
15	PHILIP SECURITIES PTE LTD	1,036,100	0.24
16	GOH KEE CHOO (WU QIZHU)	995,700	0.23
17	AGUS SUTJIAWAN	769,800	0.18
18	TAY ENG KIAT JACKSON (ZHENG YINGJIE)	650,000	0.15
19	EVANGELIN YEW LEET LING (EVANGELIN YAO LILING)	551,400	0.13
20	NG CHWEE TEE	524,000	0.12
	TOTAL	**400,983,140**	**93.12**

PERCENTAGE OF SHAREHOLDING IN PUBLIC HANDS

13.30% of the Company's shares are held in the hands of the public. Accordingly, the Company has complied with Rule 723 of The Singapore Exchange Securities Trading Limited Listing Manual.

NOTICE OF
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Hafary Holdings Limited (the "**Company**") will be held at 8 Wilkie Road, #03-08 Wilkie Edge, Singapore 228095 on Wednesday, 24 April 2019 at 11.30 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2018 together with the Independent Auditor's Report thereon. **(Resolution 1)**

2. To declare the final dividend of 0.50 Singapore cent per ordinary share tax exempt one-tier for the financial year ended 31 December 2018 (FY2017: 0.50 Singapore cent). **(Resolution 2)**

3. To re-elect the following Directors of the Company retiring pursuant to Article 104 of the Constitution of the Company and Rule 720(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"):

   Mr Low See Ching **(Resolution 3)**
   Mr Terrance Tan Kong Hwa **(Resolution 4)**

   Mr Low See Ching will, upon re-election as Director of the Company, remain as Non-Independent Non-Executive Director.

   Mr Terrance Tan Kong Hwa will, upon re-election as Director of the Company, remain as Chairman of the Nominating Committee and a member of the Audit Committee and Remuneration Committee and will be considered independent.

4. To re-appoint Ms Cheah Yee Leng as Director of the Company pursuant to Rule 720(5) of the Listing Manual of the SGX-ST. **(Resolution 5)**

   Ms Cheah Yee Leng will, upon re-appointment as Director of the Company, remain as Non-Independent Non-Executive Director.

5. To approve the payment of Directors' Fees of S$229,629 for the financial year ended 31 December 2018 (FY2017: S$231,000). **(Resolution 6)**

6. To re-appoint Messrs RSM Chio Lim LLP as Independent Auditor of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 7)**

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

AS SPECIAL BUSINESS

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

8. **Authority to issue shares**

   That pursuant to Section 161 of the Companies Act, Chapter 50, the Constitution of the Company and Rule 806 of the Listing Manual of SGX-ST, the Directors of the Company be and are hereby authorised and empowered to:

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

NOTICE OF
ANNUAL GENERAL MEETING

(ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may, in their absolute discretion, deem fit; and

(b) (notwithstanding the authority conferred by this Resolution that may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments and made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of passing this Resolution, after adjusting for:

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

(b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of passing this Resolution (provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST); and

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

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

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)] **(Resolution 8)**

NOTICE OF
ANNUAL GENERAL MEETING

9. **Authority to offer and grant awards and to allot and issue shares under the Hafary Performance Share Plan**

That pursuant to Section 161 of the Companies Act, Chapter 50, the Directors of the Company be and are hereby authorised and empowered to offer and grant awards in accordance with the provisions of the prevailing Hafary Performance Share Plan (the "**Plan**") and to allot and issue and/or deliver such number of new shares as may be required to be delivered pursuant to the vesting of the awards under the Plan, provided always that the aggregate number of shares to be delivered pursuant to the Plan, shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue to be in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (ii)] **(Resolution 9)**

10. **Renewal of General Mandate for Interested Person Transactions**

That for the purposes of Chapter 9 of the Listing Manual of the SGX-ST:

(a) approval be and is hereby given for the renewal of the general mandate permitting the Company, its subsidiaries and associated companies to enter into any of the transactions falling within the categories of Interested Person Transactions as set out in the Appendix to this Notice of Annual General Meeting (the "**Appendix**") with any party who is of the class of Interested Persons described in the Appendix, provided that such transactions are carried out on normal commercial terms which are not prejudicial to the interests of the Company and its minority Shareholders (as defined in the Appendix) and are in accordance with the review procedures for such Interested Person Transactions as set out in the Appendix (the "**IPT General Mandate**");

(b) the IPT General Mandate shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier; and

(c) authority be given to the Directors of the Company to complete and do all such acts and things (including executing all such documents as may be required) as they may consider necessary, desirable or expedient to give effect to the IPT General Mandate as they may think fit.

[See Explanatory Note (iii)] **(Resolution 10)**

By Order of the Board

Tay Eng Kiat Jackson
Company Secretary
Singapore, 9 April 2019

NOTICE OF
ANNUAL GENERAL MEETING

Explanatory Notes:

(i) The Ordinary Resolution 8 in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

(ii) The Ordinary Resolution 9 in item 9 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a General Meeting, whichever is earlier, to offer and grant awards under the Plan in accordance with the provision of the Plan and to deliver from time to time such number of new shares as may be required to be delivered pursuant to the vesting of the awards under the Plan up to a number not exceeding in aggregate (for the entire duration of the Plan) fifteen per centum (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time.

(iii) The Ordinary Resolution 10 proposed in item 10 above, if passed, will authorise the Interested Person Transactions as described in the Appendix and recurring in the year and will empower the Directors of the Company to do all acts necessary to give effect to the IPT General Mandate. This authority will, unless previously revoked or varied by the Company in a general meeting, expire at the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

Notes:

1. (a) A member who is not a relevant intermediary, is entitled to appoint one or two proxies to attend and vote at the Annual General Meeting (the "**Meeting**").

   (b) A member who is a relevant intermediary, is entitled to appoint more than two proxies to attend and vote at the Meeting, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member.

   "**Relevant intermediary**" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50.

2. A proxy need not be a member of the Company.

3. The instrument appointing a proxy or proxies must be deposited at the Registered Office of the Company at 105 Eunos Avenue 3 Hafary Centre Singapore 409836 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

NOTICE OF ANNUAL GENERAL MEETING

Personal data privacy:

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

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-APPOINTMENT

The following additional information on Mr Low See Ching, Ms Cheah Yee Leng, Mr Terrance Tan Kong Hwa, all of whom are seeking re-appointment as Directors at the forthcoming Annual General Meeting.

		MR LOW SEE CHING **Non-Independent Non-Executive Director**
Date Of Appointment	:	31 January 2014 (Re-designated to Non-Independent Non-Executive Director) 6 October 2009 (Executive Director and CEO)
Age	:	44
Country Of Principal Residence	:	Singapore
Date of last re-appointment	:	11 April 2016
The Board's comments on the re-appointment	:	Mr Low has vast and in-depth experience and knowledge in the Company's business, which will continue to benefit the Group's performance and growth.
Whether appointment is executive, and if so, the area of responsibility	:	Non-Executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	:	Non-Independent Non-Executive Director
Professional qualifications	:	Bachelor of Accountancy Degree from Nanyang Technological University, Singapore
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	:	Son of Low Kok Ann (Executive Director and Chief Executive Officer)
Conflict of interest (including any competing business)	:	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-APPOINTMENT

		MR LOW SEE CHING **Non-Independent Non-Executive Director**
Working experience and occupation(s) during the past 10 years	:	Listed Companies: • Hafary Holdings Limited (Non-Independent Non Executive Director) Date of Appointment: 31 January 2014 He joined Hafary Group in 2000 and rose through the ranks to Executive Director and CEO in 2005 before relinquishing his role to be a Non-Independent Non Executve Director in January 2014. • Oxley Holdings Limited (Executive Director and Deputy CEO) Date of Appointment: 1 February 2014 Prior this this appointment, Mr Low served on the Board as Non-Executive Director. • Aspen Group Holdings Limited (Alternate Director) Date of Appointment: 25 May 2018 He had also served on the boards of 2 other SGX-listed companies over the past 10 years. He has since stepped down from these boards.
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to Hafary	:	Yes
Shareholding interest in the listed issuer and its subsidiaries	:	Yes
Shareholding Details	:	Hafary Holdings Ltd: 113,900 ordinary shares (under own name) Hafary Holdings Ltd: 69,553,400 ordinary shares (under nominees) Hafary Balestier Showroom Pte. Ltd.: 49 ordinary shares World Furnishing Hub Pte. Ltd.: 190,000 ordinary shares
Other Principal Commitments Including Directorships		
Past (for the last 5 years)	:	None
Present	:	Hafary Holdings Limited (Non-Independent, Non-Executive Director) Oxley Holdings Limited (Executive Director and Deputy CEO) Aspen Group Holdings Limited (Alternate Director)

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-APPOINTMENT

		MS CHEAH YEE LENG **Non-Independent Non-Executive Director**	**MR TERRANCE TAN KONG HWA** **Independent Director**
Date Of Appointment	:	6 March 2015	10 Nov 2009
Age	:	50	54
Country Of Principal Residence	:	Malaysia	Singapore
Date of last re-appointment	:	11 April 2016	11 April 2016
The Board's comments on the re-appointment	:	With her vast experience in legal and corporate compliance sphere, Ms Cheah will continue to complement and augment the core competencies of the Board.	Mr Tan has vast experience in the banking and private equity/venture capital industry. His experince will continue to enhance board deliberations.
Whether appointment is executive, and if so, the area of responsibility	:	Non-Executive	Non-Executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	:	Non-Independent Non-Executive Director	Independent Director, AC member, Chairman of NC, RC member
Professional qualifications	:	Bachelor of Economics Degree and Bachelor of Laws Degree from Monash University in Australia.	Degree in Bachelor of Science (Estate Management) (Honours) from the National University of Singapore
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	:	No	No
Conflict of interest (including any competing business)	:	No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-APPOINTMENT

		MS CHEAH YEE LENG **Non-Independent Non-Executive Director**	**MR TERRANCE TAN KONG HWA** **Independent Director**
Working experience and occupational(s) during the past 10 years	:	Listed Companies: • Paos Holdings Berhad (Non-Independent Non-Executive Director) Date of Appointment: 14 June 2012 • Hap Seng Consolidated Berhad (Executive Director) Date of Appointment: 1 June 2014 • Hap Seng Plantations Holdings Berhad (Executive Director) Date of Appointment: 1 March 2016	Mr Tan has been co-managing Providence Capital Management Pte Ltd ("PCM") and the various funds and investment vehicles managed by PCM over the past 11 years. He had also served on the boards of 3 other SGX-listed companies over the past 10 years. He has since stepped down from these boards.
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to Hafary	:	Yes	Yes
Shareholding interest in the listed issuer and its subsidiaries	:	No	No
Shareholding Details	:	–	–
Other Principal Commitments Including Directorships			
Past (for the last 5 years)	:	None	Interplex Holdings Limited
Present	:	Hap Seng Consolidated Berhad Hap Seng Plantations Holdings Berhad Paos Holdings Berhad	Providence Capital Management Pte Ltd

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-APPOINTMENT

		MR LOW SEE CHING Non-Independent Non-Executive Director	MS CHEAH YEE LENG Non-Independent Non-Executive Director	MR TERRANCE TAN KONG HWA Independent Director
(a)	Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No	No
(b)	Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No	No
(c)	Whether there is any unsatisfied judgment against him?	No	No	No
(d)	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No	No
(e)	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-APPOINTMENT

		MR LOW SEE CHING Non-Independent Non-Executive Director	MS CHEAH YEE LENG Non-Independent Non-Executive Director	MR TERRANCE TAN KONG HWA Independent Director
(f)	Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No	No
(g)	Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No	No
(h)	Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No	No
(i)	Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No	No
(j)	Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:–			
	(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-APPOINTMENT

	MR LOW SEE CHING Non-Independent Non-Executive Director	MS CHEAH YEE LENG Non-Independent Non-Executive Director	MR TERRANCE TAN KONG HWA Independent Director
(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No	No
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No	No
(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No	No	No
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No	No
Disclosure applicable to the appointment of Director only			
Any prior experience as a director of an listed issuer listed on the Exchange? If No, please state if the director has attended or will be attending training on the roels and responsibilities of a director of a listed issuer as prescribed by the Exchange. Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable)	Not Applicable	Not Applicable	Not Applicable

HAFARY HOLDINGS LIMITED
Company Registration No. 200918637C
(Incorporated In The Republic of Singapore)

IMPORTANT:
1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see note 4 for the definition of "relevant intermediary").
2. For investors who have used their CPF/SRS monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and/or SRS Operators.
3. This Proxy Form is not valid for use by CPF/SRS investors and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective Agent Banks if they have any queries regarding their appointment as proxies.

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, ____

of ____

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

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at 8 Wilkie Road, #03-08 Wilkie Edge, Singapore 228095 on Wednesday, 24 April 2019 at 11.30 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the Meeting and at any adjournment thereof.

No.	Resolutions relating to:	Number of Votes For(1)	Number of Votes Against(1)
1	Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2018		
2	Declaration of proposed final dividend of 0.50 Singapore cent per ordinary share		
3	Re-election of Mr Low See Ching as Director		
4	Re-election of Mr Terrance Tan Kong Hwa as Director		
5	Re-appointment of Ms Cheah Yee Leng as Director		
6	Approval of Directors' Fees amounting to S$229,629 for the financial year ended 31 December 2018		
7	Re-appointment of Messrs RSM Chio Lim LLP as Independent Auditor		
8	Authority to issue shares		
9	Authority to offer and grant awards and to allot and issue shares under the Hafary Performance Share Plan		
10	Renewal of General Mandate for Interested Person Transactions		

(1) If you wish to exercise all your votes "For" or "Against", please tick within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this ________ day of ________________ 2019

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

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

*Delete where inapplicable

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, he/she shall specify the proportion of his/her shareholding to be represented by each proxy. If no such proportion or number is specified, the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named.

4. A member who is a relevant intermediary entitled to attend the meeting and vote is entitled to appoint more than two proxies to attend and vote instead of the member, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member.

   "Relevant intermediary" means:

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

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

   (c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 105 Eunos Avenue 3, Hafary Centre, Singapore 409836 not less than 48 hours before the time appointed for the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal (or such other methods as provided for in Section 41B of the Companies Act, Chapter 50 of Singapore) or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

PERSONAL DATA PRIVACY:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 9 April 2019.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

OUR SHOWROOMS

HAFARY GALLERY

105 Eunos Avenue 3 Hafary Centre Singapore 409836
Tel: 6250 1368 Fax: 6383 1536
Email: eunosshowroom@hafary.com.sg

Operating hours:
Mon to Sat: 9.00am – 7.00pm
Sun and PH: 10.30am – 5.30pm

HAFARY BALESTIER

560 Balestier Road Singapore 329876
Tel: 6250 1369 Fax: 6255 4450
Email: balestiershowroom@hafary.com.sg

Operating hours:
Mon to Fri: 9.00am – 7.30pm
Sat: 9.00am – 7.00pm
Sun and PH: 10.30am – 5.00pm

HAFARY TRADEHUB 21

18 Boon Lay Way #01-132 Tradehub 21
Singapore 609966
Tel: 6570 6265 Fax: 6570 8425
Email: tradehub21showroom@hafary.com.sg

Operating hours:
Mon to Sat: 10.00am – 7.00pm
Sun and PH: 10.00am – 5.00pm

THE STONE GALLERY BY HAFARY

18 Sungei Kadut Street 2
World Furnishing Hub, Level 7
Singapore 729236
Tel: +65 6219 3323 Fax: +65 6219 3313
Email: thestonegallery@hafary.com.sg

Operating Hours (By Appointment only)
Monday - Friday: 9.00am - 6.00pm
Saturday: 9.00am - 2.00pm

合發利控股有限公司
HAFARY HOLDINGS LIMITED
(Company Registration No. 200918637C)

105 Eunos Avenue 3 Hafary Centre
Singapore 409836

T : +65 6383 2314
F : +65 6253 4496
E : enquiry@hafary.com.sg
www.hafary.com.sg