HAFARY HOLDINGS LIMITED

# EVERYTHING BEGINS WITH IDEA

2017 ANNUAL REPORT

# 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 of approximately 200 suppliers, 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 our Executive Director and CEO, Mr Low Kok Ann, Hafary is organized 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 to retail customers. 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., specializes in the fabrication, polishing and profiling of stone and marble slabs for household and commercial purposes.

Hafary's Vietnam associate, Viet Ceramics International JSC, 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. In line with its expansion plans, Hafary will continue to explore overseas opportunities.

Hafary's corporate headquarters and main showroom 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.

## GENERAL

Retail customers may purchase our products directly from our three showrooms located at 105 Eunos Avenue 3 Singapore 409836, 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.

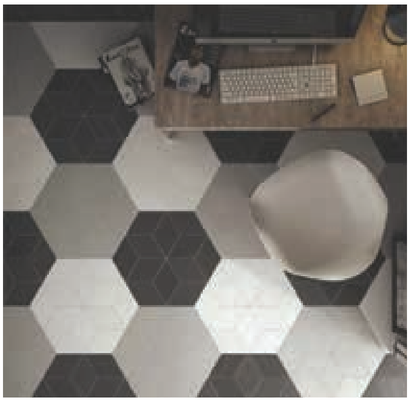
## PROJECT

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.

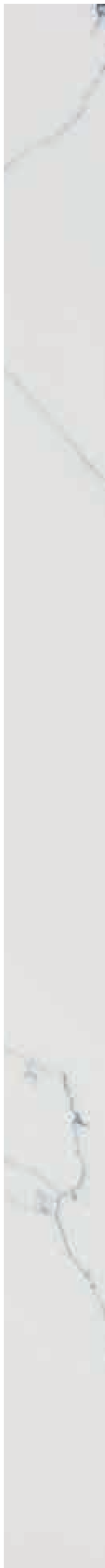


# OUR PRODUCTS

## 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.

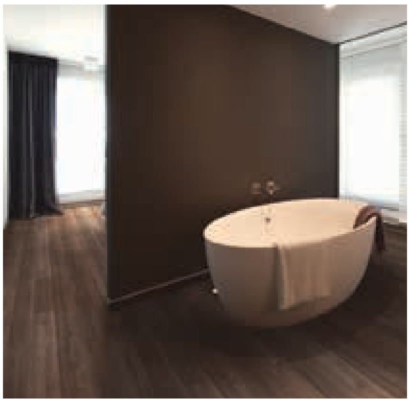
Granite | Limestone | Marble
Quartz | Composite Quartz |
Marble

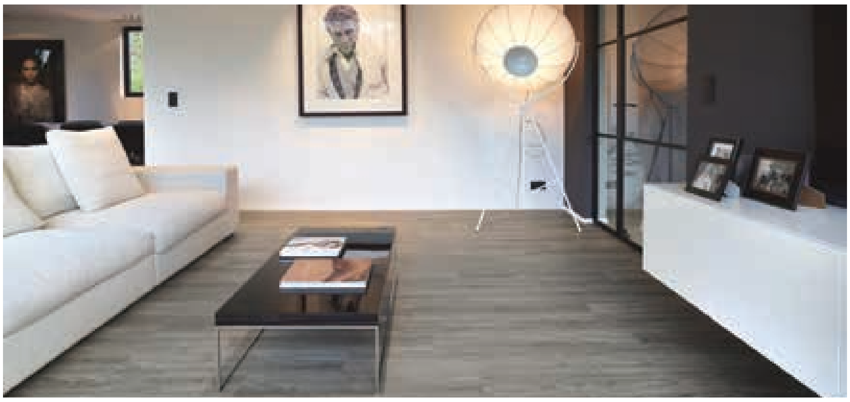


# OUR PRODUCTS

## WOOD

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.

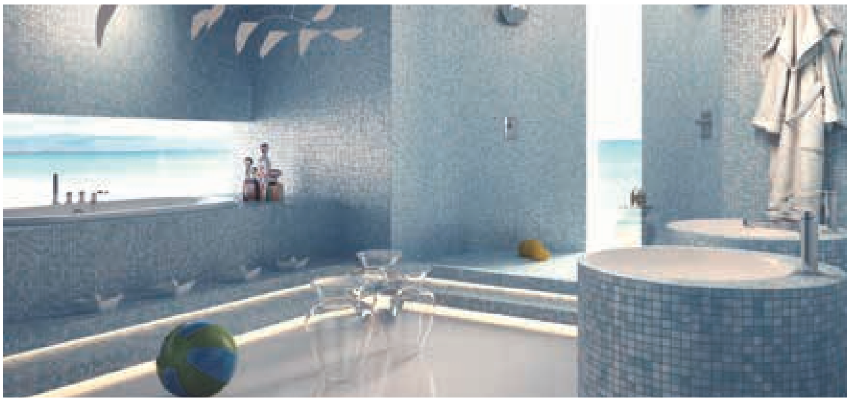




# OUR PRODUCTS

## 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

Looking ahead, the Group will remain vigilant to market developments and for opportunities to grow 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 2017 ("FY2017").

### Group Revenue and Profitability

For FY2017, the Group achieved higher revenue of S$115.8 million, compared to S$109.6 million in the financial year ended 31 December 2016 ("FY2016").

Profit before income tax increased by S$0.3 million or 3.5% from S$9.5 million in FY2016 to S$9.8 million in FY2017. This is in spite of the recognition of costs, such as depreciation, land rent and property tax, relating to our leasehold property at 18 Sungei Kadut Street 2 (World Furnishing Hub). Before the completion of this premise in August 2016, these qualifying costs were capitalised under property, plant and equipment as and when they were incurred.

Earnings before interest, tax, depreciation and amortisation (EBITDA), which better reflects the operating profitability, increased by S$3.0 million, from S$16.5 million in FY2016 to S$19.5 million in FY2017.

### Enhancing Shareholder Value

In view of the Group's continued profitability, the Group had declared and paid two interim dividends totaling 1.0 cent per ordinary share during FY2017. 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

New Products

We seek to add value to our customers and one way to do so is through enhancement of our product offerings.

At the start of 2017, the Group secured the distributorship of Smartstone's engineered quartz surface in Singapore. Since its formation in 2002, Smartstone has established a strong reputation for quality, sustainability and value. Today, Smartstone is one of the leading distributors of engineered quartz surface in Australia and continues to expand globally.

Recently, we are also proud to add Pergo's vinyl tiles and laminated flooring in our product portfolio. Pergo started as a decorative laminate manufacturer in Sweden in the 1950s and begun producing laminated flooring in the 1980s. Over the years, it led several flooring innovations and has an ISO-certified management system concerning product quality and environmental protection. In 2013, Pergo entered the wood and vinyl flooring market and became a true multi-category flooring brand.

# CEO'S STATEMENT

World Furnishing Hub
World Furnishing Hub is located at the epicenter of the International Furniture Park ("IFP"), positioned by Jurong Town Corporation as Southeast Asia's premier global marketplace for furniture and furniture-related industries. Approximately 270,000 square feet of the gross floor area of the 7-storey building is used for warehousing and other ancillary purposes, while approximately 30,000 square feet of commercial space will be used to house amenities to bring vibrancy into the IFP.

The Group's marble warehouse-cum-gallery is located at the top level of World Furnishing Hub and provides a comfortable environment for our customers to view and select their marble slabs and tiles. On the back of high demand for marble in recent years, our wholly-owned subsidiary, Hafary Pte Ltd, signed exclusive rights to distribute premium marble from world renowned Italian marble producer, Antolini Luigi & C S.p.a., in November 2017. Skilled craftsmen, supported by the latest processing technologies, enable Antolini to transform natural stone into elegant masterpieces and be in the forefront of the marble markets for many years. With this collaboration, our marble gallery is being furbished according to Antolini's high standards. We look forward to the official launch of our marble gallery in 2018 and bringing to our customers the new concept of marble display and retailing.

**Overseas Investments**

China
In September 2017, our wholly-owned subsidiary, Hafary Building Materials Pte Ltd, invested in a joint venture company, Guangdong ITA Element Building Materials Co., Limited, in China. The joint venture, led by Mr Wei Beizan, is principally involved in the designing and production of glazed porcelain tiles. Manufacturing of these tiles are undertaken by third party tile factories. Mr Wei is well regarded in the China tile industry with more than 20 years of relevant working experience. His intimate knowledge of the tile supply chain from design to manufacturing to distribution and his wide business network would be instrumental in setting a strong foundation and preparing the joint venture for future growth.

Vietnam
For FY2017, the Group's associate, Viet Ceramics International Joint Stock Company ("VCI"), a tile retailing company in Vietnam, contributed profits amounting to S$3.3 million (FY2016: S$1.9 million) to the Group. The increased contribution from VCI is attributed to Vietnam's increasing construction activities, as well as the growing affluence of Vietnam's middle class in recent years.

VCI has 6 showrooms in Vietnam, 3 in Ho Chi Minh City, 2 in Hanoi and 1 in Danang. In 2018, a new showroom, which primarily showcases tiles and sanitary ware and fittings, would be opened along Song Hanh Street in Ho Chi Minh City. To enhance customers' shopping experience, certain showrooms would also be renovated. VCI is also supported by an Outdoor Sales Department which has been working tirelessly to reach out to the large number of renovation and architectural firms in Vietnam.

**Customer Engagement and Brand Awareness**

The Group seizes opportunities to engage our customers through various events and marketing initiatives. In 2017, we advance our digital marketing engagement through a social media campaign – "The Art of Tile". The campaign is an eight part video series about the Group's impressive range of surfacing products and solutions. Launched on our Youtube and Facebook page, the campaign also seeks to increase brand awareness and reinforce the Group's leading position in the industry.

Since 2011, we have been hosting budding architects and interior designers for their industrial fieldtrips. In 2017, 460 students from various institutions, such as BCA Academy and Raffles Design Institute, visited our showrooms for guided tours. The Group is also proud to contribute a $3,000 Hafary scholarship to Temasek Polytechnic for students with outstanding performance. This contribution to academic excellence is the first of its kind by a tile company in Singapore.

**Sustainability**

In the course of formulating the Group's strategies and conducting our businesses, the Board and management consider sustainability issues. As a distribution and retail organisation, customer service excellence is imperative in ensuring that we continue to be the leading building materials supplier in Singapore. The implementation of our sales and customer engagement initiatives during FY2017 described above demonstrates the Company's determination in securing this critical success factor.

The next phase of growth for Hafary will be driven by the seamless integration of physical and digital shopping experience. A recent survey by the Institute of Service Excellence on customer satisfaction in Singapore found that customers who used the retailers' online platform have higher satisfaction and loyalty compared to those who only visit the physical stores. In addition to updating our website and online catalogue regularly, the Group started implementing QR codes for our products in late-2017. Not only are our customers able to see and feel our tiles at the comfort of our showrooms, they can now better appreciate how these tiles can be applied through our picture library of mocked-up living spaces. There are also rooms for automation and digitalisation to improve our logistics operations. In view of these technological developments and the resultant changes in customers' needs, managerial bandwidth would be dedicated to develop this aspect of our business in the coming years.

**Appreciation Note**

I wish to express my heartfelt appreciation to my fellow Directors for the advice and guidance provided during the year. Also, I wish to take this opportunity to thank Mr Yeow Wai Siaw, who resigned as Director of the Company in December 2017, for his contributions and welcome Mr Dickson Yong Teak Jan as a Board member of the Company.

I would also like to thank all our customers, suppliers and shareholders for the unwavering support and trust in Hafary. Last and not least, my appreciation goes to the management team and staff for their dedication and hard work. Looking ahead, the Group will remain vigilant to market developments and for opportunities to grow our business locally and regionally.

**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 31 October 2014. 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 20 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
Heatec Jietong Holdings Ltd.
IPS Securex Holdings Limited
Kitchen Culture Holdings Ltd.
CWX Global Limited (f.k.a. Loyz Energy Limited)

**Past directorship (Preceding three years):** NIL

## 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

**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 15 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
Infinio Group Limited
Katrina Group Ltd.
SMJ International Holdings Ltd.
Versalink Holdings Limited

**Past directorship (Preceding three years):**
Ley Choon Group Holdings Limited

# KEY MANAGEMENT

### TAY ENG KIAT JACKSON
Director – Operation

Mr Tay joined our Group in 2009 and has been the Operation Director and Company Secretary since 2015. He oversees the operational and corporate functions of our Group, including business development, investor relations and corporate secretarial duties. Mr Tay has more than 15 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 the Audit & Risk Committee of OUE Lippo Healthcare Limited, a company listed on the SGX Catalist. He holds a Bachelor of Accountancy (Minor in Marketing) degree from Nanyang Technological University, Singapore and is a 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.

### WU PEI CONG
Financial Controller

Mr Wu joined our Group in 2011 and has been the Financial Controller since 2015. He oversees the Group's finance and corporate functions including treasury, financial reporting, tax and internal controls. Before joining the Group, he was an Audit Manager of a mid-tier audit firm. He is a fellow member of the Association of Chartered Certified Accountants, a member of Institute of Internal Auditor Singapore and a non-practising Chartered Accountant (Singapore).

# GROUP STRUCTURE

## HAFARY HOLDINGS LIMITED
UEN: 200918637C

100%
**HAFARY PTE LTD**
UEN: 198001531R

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

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

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

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

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

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 | FY2017 S$'000 | FY2016 S$'000 | 12M2015* S$'000 | 18M2015 S$'000 | FY2014 S$'000 | FY2013 S$'000 |
|---|---|---|---|---|---|---|
| Revenue – General | 60,637 | 56,176 | 56,234 | 88,847 | 50,388 | 47,664 |
| Revenue – Project | 52,795 | 50,920 | 63,903 | 90,824 | 41,283 | 35,446 |
| Revenue – Others | 2,402 | 2,539 | 2,577 | 3,573 | 1,074 | 227 |
| Total Revenue | 115,834 | 109,635 | 122,714 | 183,244 | 92,745 | 83,337 |
| Revenue – General (% of total revenue) | 52.3% | 51.2% | 45.8% | 48.5% | 54.3% | 57.2% |
| Revenue – Project (% of total revenue) | 45.6% | 46.4% | 52.1% | 49.6% | 44.5% | 42.5% |
| Earnings before interest, income taxes and depreciation (EBITDA) | 19,497 | 16,510 | 19,737 | 31,374 | 15,169 | 30,642 |
| EBITDA margin (%) | 16.8% | 15.1% | 16.1% | 17.1% | 16.4% | 36.8% |
| Finance cost (i.e. Interest expense) | 3,607 | 2,717 | 2,713 | 3,753 | 1,784 | 1,207 |
| Profit before income tax | 9,839 | 9,502 | 13,751 | 22,828 | 10,747 | 28,012 |
| Profit before income tax margin (%) | 8.5% | 8.7% | 11.2% | 12.5% | 11.6% | 33.6% |
| Net Profit | 8,432 | 7,909 | 15,737 | 23,645 | 8,720 | 22,882 |
| Net Profit margin (%) | 7.3% | 7.2% | 12.8% | 12.9% | 9.4% | 27.5% |
| Profit after income taxes and non-controlling interest (PATNCI) | 8,745 | 8,170 | 14,691 | 22,176 | 8,048 | 22,328 |
| PATNCI margin (%) | 7.5% | 7.5% | 12.0% | 12.1% | 8.7% | 26.8% |

| At Year End | FY2017 S$'000 | FY2016 S$'000 | FY2015 S$'000 | FY2014 S$'000 | FY2013 S$'000 |
|---|---|---|---|---|---|
| Non-current assets | 135,393 | 133,162 | 111,494 | 77,031 | 55,145 |
| Current assets | 95,122 | 94,127 | 102,578 | 77,303 | 80,842 |
| Total assets | 230,515 | 227,289 | 214,072 | 154,334 | 135,987 |
| Non-current liabilities | 87,478 | 90,548 | 66,251 | 37,390 | 17,619 |
| Current liabilities | 81,959 | 79,014 | 93,023 | 76,660 | 71,617 |
| Total liabilities | 169,437 | 169,562 | 159,274 | 114,050 | 89,236 |
| Total debt | 144,953 | 143,697 | 123,641 | 91,642 | 64,566 |
| Cash and cash equivalents | 5,996 | 4,438 | 8,531 | 4,857 | 9,583 |
| Net debt | 138,957 | 139,259 | 115,110 | 86,785 | 54,983 |
| Shareholders' equity | 58,032 | 54,175 | 50,787 | 37,649 | 44,676 |
| Total equity | 61,078 | 57,727 | 54,798 | 40,284 | 46,751 |
| Number of ordinary shares ('000) | 430,550 | 429,000 | 429,000 | 429,000 | 429,000 |
| Weighted average number of ordinary shares ('000) | | | | | |
| – Basic | 430,550 | 429,000 | 429,000 | 429,000 | 402,479 |
| – Diluted | 430,550 | 430,262 | 429,000 | 429,000 | 402,479 |
| Share price at year end (cents) | 17.5 | 20.0 | 18.5 | 17.8 | 19.1 |
| Market capitalisation as at year end date | 75,346 | 85,800 | 79,365 | 76,362 | 81,939 |

# FINANCIAL HIGHLIGHTS

| Financial Ratios | FY2017 | FY2016 | 12M2015 | 18M2015 | FY2014 | FY2013 |
|---|---|---|---|---|---|---|
| **Profitability** | | | | | | |
| Revenue growth (%) | 5.7% | -10.7% | 17.6%+ | 19.6%# | 11.3% | 32.1% |
| PATNCI growth (%) | 7.0% | -44.4% | 33.0%+ | 42.8%# | (64.0%) | 391.0% |
| Return on assets (%) (PATNCI/Total assets) | 3.8% | 3.6% | 6.9% | 10.4% | 5.2% | 16.4% |
| Return on equity (%) (PATNCI/ Average shareholders' equity) | 15.6% | 15.6% | 32.3% | 48.8% | 19.6% | 58.8% |
| **Liquidity** | | | | | | |
| Current ratio (times) | 1.2 | 1.2 | 1.1 | 1.1 | 1.0 | 1.1 |
| Cash as per share (cents) | 1.4 | 1.0 | 2.0 | 2.0 | 1.1 | 2.2 |
| Net assets per share (cents) | 13.5 | 12.6 | 11.8 | 11.8 | 8.8 | 10.4 |
| **Leverage** | | | | | | |
| Net debt to equity ratio (times) (Net debt/Shareholders' equity) | 2.4 | 2.6 | 2.3 | 2.3 | 2.3 | 1.2 |
| Interest cover (times) (EBITDA/Finance cost) | 5.4 | 6.1 | 7.3 | 8.4 | 8.5 | 25.4 |
| **Investors' Ratio** | | | | | | |
| Earnings per share (cents) (Basic and fully diluted) | 2.0 | 1.9 | 3.4 | 5.2 | 1.9 | 5.6 |
| Gross dividend per share (cents) – Interim | 1.0 | 1.0 | 1.0 | 2.0 | 1.0 | 4.0 |
| Gross dividend per share (cents) – Final | 0.5 | – | – | – | 0.3 | 2.5 |
| Total gross dividend per share (cents) (DPS) | 1.5 | 1.0 | 1.0 | 2.0 | 1.3 | 6.5 |
| Gross dividend yield (%) based on year end share price | 8.6% | 5.0% | 5.4% | 10.8% | 7.3% | 34.0% |
| Gross dividend payout (%) (Gross dividend/Profit after tax attributable to shareholders) | 49.1% | 52.5% | 29.2% | 38.7% | 69.3% | 100.9% |

* 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 | FY2017 S$'000 | FY2016 S$'000 | Change S$'000 | Change % |
|---|---|---|---|---|
| Revenue | 115,834 | 109,635 | 6,199 | 5.7 |
| Dividend Income | – | 12 | (12) | N.M |
| Interest Income | 58 | 66 | (8) | (12.1) |
| Other Gains | 608 | 534 | 74 | 13.9 |
| Changes in Inventories of Finished Goods | 1,444 | 4,369 | (2,925) | (66.9) |
| Purchases and Related Expenses | (69,785) | (69,632) | (153) | 0.2 |
| Employee Benefits Expenses | (18,515) | (17,648) | (867) | 4.9 |
| Amortisation and Depreciation Expense | (6,109) | (4,357) | (1,752) | 40.2 |
| Impairment Losses | (1,843) | (1,039) | (804) | 77.4 |
| Other Losses | (521) | (591) | 70 | (11.8) |
| Finance Costs | (3,607) | (2,717) | (890) | 32.8 |
| Other Expenses | (10,811) | (11,062) | 251 | (2.3) |
| Share of Profit from an Equity-Accounted Associate | 3,277 | 1,899 | 1,378 | 72.6 |
| Share of (Losses) Profits from Equity-Accounted Joint Ventures | (191) | 33 | (224) | N.M |
| **Profit Before Income Tax** | **9,839** | **9,502** | **337** | **3.5** |
| Income Tax Expense | (1,407) | (1,593) | 186 | (11.7) |
| **Profit, Net of tax** | 8,432 | 7,909 | 523 | 6.6 |
| Other Comprehensive Loss: | | | | |
| Items that may be Reclassified Subsequently to Profit or Loss: | | | | |
| Exchange Differences on Translating Foreign Operations, Net of Tax | (652) | (607) | (45) | 7.4 |
| **Total Comprehensive Income** | **7,780** | **7,302** | **478** | **6.5** |
| **Profit attributable to:** | | | | |
| – Owners of the Parent, Net of Tax | 8,745 | 8,170 | 575 | 7.0 |
| – Non-Controlling Interest, Net of Tax | (313) | (261) | (52) | 19.9 |
| | **8,432** | **7,909** | **523** | **6.6** |
| – Owners of the Parent | 8,093 | 7,563 | 530 | 7.0 |
| – Non-Controlling Interests | (313) | (261) | (52) | 19.9 |
| | **7,780** | **7,302** | **478** | **6.5** |

# FINANCIAL REVIEW

**Revenue**
During FY2017, the Group achieved modest increase in revenue across the general and project segments as the Singapore construction sector continued to contract in 2017 due to weakness in private sector construction activities. Group revenue was S$115.8 million in FY2017 compared to S$109.6 million in FY2016.

**Other Gains**
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 gains for FY2016 comprised mainly of fair value gain on foreign currency forward contracts of S$0.2 million and government grant income of S$0.2 million.

**Other Losses**
Other losses for FY2017 comprised mainly of fair value loss on foreign currency forward contracts of S$0.5 million. Purchases of inventories are mainly denominated in United States Dollars (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 losses for FY2016 comprised mainly of foreign exchange adjustment losses amounting to S$0.3 million and fair value loss on investment in quoted shares (SMJ) amounting to S$0.3 million.

**Cost of Sales**
Cost of sales comprise purchases and related expenses net of changes in inventories of finished goods for the respective financial periods. Cost of sales increased by S$3.1 million or 4.7% from S$65.2 million during FY2016 to S$68.3 million during FY2017. The gross profit margin of 39.8% for FY2017 is comparable to 39.1% achieved in FY2016.

**Employee Benefits Expense**
The increase by S$0.9 million or 4.9% from S$17.6 million during FY2016 to S$18.5 million during FY2017 is mainly due to increment with effect from July 2017, overtime expenses and increase in headcount. As at 31 December 2017, the Group had 328 employees (31 December 2016: 318).

**Amortisation and Depreciation Expense**
Amortisation and depreciation expense increased by S$1.8 million or 40.2% from S$4.3 million in FY2016 to S$6.1 million in FY2017. This increase is mainly due to the commencement of depreciation of the Group's leasehold property at 18 Sungei Kadut Street 2 (World Furnishing Hub) after development of the premise was completed in August 2016.

**Impairment Losses**
Impairment losses increased by S$0.8 million or 77.4% from S$1.0 million in FY2016 to S$1.8 million in FY2017. The increase is mainly attributable to the increase in allowance for impairment of inventories. Inventory impairment is assessed quarterly considering the age and prevailing market demand of inventory items.

**Finance Costs**
Finance cost increased by S$0.9 million of 32.8% from S$2.7 million in FY2016 to S$3.6 million in FY2017. The increase was mainly due to recognition of interest expense on bank borrowings to finance acquisition and development of World Furnishing Hub in profit or loss after its development is completed. During the development phase, the interest expense were capitalised under non-current asset as and when incurred.

**Other Expenses**
Other expenses decreased by S$0.3 million of 2.3% from S$11.1 million during FY2016 to S$10.8 million during FY2017. The decrease was mainly attributable to decrease in rental expenses as rental of warehousing spaces in Changi North Way ceased in March and July 2017. This decrease was partially offset by an increase in land rent and property tax of World Furnishing Hub. Other major expense items include commission expense, land rent, 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") and Guangdong ITA Element Building Materials Co., Limited ("GE").

Share of profits from VCI amounted to S$3.3 million (2016: S$1.9 million). The increased profitability is due to the improved financial performance of VCI on the backdrop of a buoyant economic climate and increased construction activities in Vietnam.

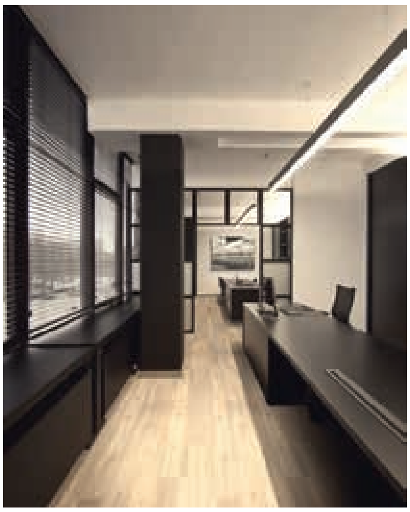
Share of losses from MSPL was S$0.1 million (2016: Profit of S$33,000). GE is in the first year of operations and share of losses was S$0.1 million during FY2017.

**Profit Before Tax**
Profit before income tax ("PBIT") increased by S$0.3 million or 3.5% from S$9.5 million in FY2016 to S$9.8 million in FY2017.

Excluding share of results from the associate and joint venture companies amounting to S$3.1 million (FY2016: S$1.9 million) and fair value gain on quoted investment amounting to S$0.1 million (FY2016: Loss of S$0.3 million), PBIT generated from recurring activities was S$6.6 million (FY2016: S$7.9 million).

The lower PBIT generated from recurring activities for FY2017 was lower due to higher depreciation expense, finance costs and employee benefits expenses.

**Income Tax Expense**
The current tax expense is based on the statutory tax rates of the respective countries that the Group operates and takes into account non-deductible expenses and temporary differences. Income tax expense was lower in FY2017 due to lower taxable profits.



# FINANCIAL REVIEW

| Statement of Financial Position | FY2017 S$'000 | FY2016 S$'000 | Change S$'000 | Change % |
|---|---|---|---|---|
| Non-Current Assets: | | | | |
| Property, Plant and Equipment | 111,225 | 114,371 | (3,146) | (2.8) |
| Other Asset, Non-Current | 4,395 | 4,597 | (202) | (4.4) |
| Investment Property | 4,247 | 4,265 | (18) | (0.4) |
| Investment in an Associate | 9,784 | 7,088 | 2,696 | 38.0 |
| Investments in Joint Ventures | 3,106 | 272 | 2,834 | N.M |
| Other Financial Assets, Non-Current | 2,636 | 2,569 | 67 | 2.6 |
| Current Assets: | | | | |
| Inventories | 51,250 | 50,876 | 374 | 0.7 |
| Trade and Other Receivables | 32,977 | 33,615 | (638) | (1.9) |
| Derivative Financial Assets | – | 292 | (292) | N.M |
| Other Financial Assets, Current | – | 656 | (656) | N.M |
| Other Assets, Current | 4,899 | 4,250 | 649 | 15.3 |
| Cash and Cash Equivalents | 5,996 | 4,438 | 1,558 | 35.1 |
| **Total Assets** | **230,515** | **227,289** | **3,226** | **1.4** |
| Equity: | | | | |
| Equity, Attributable to Owners of the Parent | 58,032 | 54,175 | 3,857 | 7.1 |
| Non-Controlling Interests | 3,046 | 3,552 | (506) | (14.2) |
| **Total Equity** | **61,078** | **57,727** | **3,351** | **5.8** |
| Non-Current Liabilities: | | | | |
| Deferred Tax Liabilities | 580 | 509 | 71 | 13.9 |
| Other Financial Liabilities | 86,898 | 90,039 | (3,141) | (3.5) |
| Current Liabilities: | | | | |
| Provision | 653 | 523 | 130 | 24.9 |
| Income Tax Payable | 1,589 | 1,651 | (62) | (3.8) |
| Trade and Other Payables | 19,988 | 22,160 | (2,172) | (9.8) |
| Other Financial Liabilities | 58,055 | 53,658 | 4,397 | 8.2 |
| Other Liabilities | 1,445 | 1,022 | 423 | 41.4 |
| Derivative Financial Liabilities | 229 | – | 229 | N.M |
| **Total Liabilities** | **169,437** | **169,562** | **(125)** | **(0.1)** |
| **Total Equity and Liabilities** | **230,515** | **227,289** | **3,226** | **1.4** |

# FINANCIAL REVIEW

### Non-Current Assets

Non-current assets increased by S$2.2 million or 1.7% from S$133.2 million as at 31 December 2016 to S$135.4 million as at 31 December 2017.

Property, plant and equipment decreased by S$3.1 million from S$114.3 million as at 31 December 2016 to S$111.2 million as at 31 December 2017. The decrease was mainly due to depreciation expense amounting to S$6.0 million and disposal of plant and equipment amounting to S$0.2 million. These were partially offset by construction cost for World Furnishing Hub amounting to S$0.6 million, addition of plant and equipment amounting to S$2.1 million and addition of motor vehicles amounting to S$0.4 million.

Other asset pertains to land use right of the Group's leasehold warehouse in Foshan, China. The decrease amounting to S$0.2 million was due to foreign exchange adjustment loss of S$0.1 million and amortisation expense of S$0.1 million.

The increase in investment in associate amounting to S$2.7 million pertained to share of profits of S$3.3 million from VCI during FY2017 and was partially offset by dividend received by the Group of S$0.2 million and foreign exchange loss on translating foreign operations amounting to S$0.4 million.

The increase in investment in joint venture companies amounting to S$2.8 million pertained to investment in GE during FY2017 amounting to S$3.1 million. This was partially offset by share of losses from MSPL and GE amounting to S$0.2 million.

The investment property is located at 532 Balestier Road Singapore 329859.

Other financial assets pertain to the Group's investment in shares of SMJ and a tile wholesale company in China. The increase was due to fair value gain on SMJ shares, which are listed on Catalist Board of the Singapore Exchange, of S$0.1 million.

### Current Assets

Current assets increased by S$1.0 million or 1.1% from S$94.1 million as at 31 December 2017 to S$95.1 million as at 31 December 2017. The increase was mainly due to increase in cash and cash equivalents by S$1.6 million, other assets by S$0.6 million and inventories by S$0.4 million. The above increase was partially offset by a decrease in trade and other receivables by S$0.6 million, other financial assets by S$0.7 million and derivative financial assets by S$0.3 million.

Inventories turnover as at 31 December 2017 is 273 days compared to 285 days as at 31 December 2016. Trade receivables turnover as at 31 December 2017 is 102 days compared to 103 days as at 31 December 2016.

Other financial assets pertained to investment in short-term (Up to 14 days) fixed income fund. The Group ceased the investment in these funds in 2017. Other assets comprised advance payment to suppliers, deposits to secure services and prepayments.

The increase in other assets was mainly due to increase in advance payment to suppliers.

### Non-Current Liabilities

Non-current liabilities decreased by S$3.1 million or 3.4% from S$90.5 million as at 31 December 2016 to S$87.5 million as at 31 December 2017.

### Current Liabilities

Current liabilities increased by S$2.9 million or 3.7% from S$79.0 million as at 31 December 2016 to S$81.9 million as at 31 December 2017.

Total amount of trade payables and trust receipts and bills payable to banks was S$37.4 million (31 December 2016: S$38.2 million). The turnover of the aforesaid items (based on cost of sales) is 176 days as at 31 December 2017 compared to 190 days as at 31 December 2016.

The increase in other financial liabilities was mainly due to net loan drawdown amounting to S$4.1 million and increases in trust receipts and bills payable to banks by S$0.3 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 2017, the difference between forward contract rates and the forward market rates were not in favour of the Group and resulted in a fair value loss. This fair value loss was recorded in profit or loss under other losses and correspondingly recorded as a current liability in statement of financial position.

# FINANCIAL REVIEW

## LIST OF PROPERTIES HELD BY THE GROUP

| 105 Eunos Avenue 3, Hafary Centre, Singapore 409836 | |
|---|---|
| Description | 6-storey light industrial building |
| Purpose | Headquarters and main showroom |
| Expiry of Land Tenure | 14 September 2039 |
| Area ('000 square feet)<br>- Land/Gross floor | 54/130 |
| Purchase price (S$'000) | 9,800 |
| Development costs (S$'000) | 11,752 |
| Book value (S$'000) | 17,846 |

| 18 Sungei Kadut Street 2, Singapore 729236 | |
|---|---|
| Description | 7-storey industrial building |
| Purpose | Commercial and warehousing |
| Expiry of Land Tenure | 30 September 2043 |
| Area ('000 square feet)<br>- Land/Gross floor | 107/296 |
| Purchase price (S$'000) | 8,650 |
| Development costs (S$'000) | 51,634 |
| Book value (S$'000) | 57,323 |

| 3 Changi North Street 1, Singapore 498824 | |
|---|---|
| Description | 2-storey warehouse |
| Purpose | Main warehouse |
| Expiry of Land Tenure | 28 February 2029 |
| Area ('000 square feet)<br>- Land/Gross floor | 113/151 |
| Purchase price (S$'000) | 10,000 |
| Development costs (S$'000) | 13,787 |
| Book value (S$'000) | 21,287 |

| 532 Balestier Road, Singapore 329859 | |
|---|---|
| Description | 2-storey corner prewar shophouse |
| Purpose | Commercial |
| Expiry of Land Tenure | Not applicable (Freehold property) |
| Area ('000 square feet)<br>- Land/Gross floor | 2/3 |
| Purchase price (S$'000) | 4,050 |
| Development costs (S$'000) | - |
| Book value (S$'000) | 4,247 |

| 54/56 Sungei Kadut Loop, Singapore 729477 | |
|---|---|
| Description | 1-storey warehouse |
| Purpose | Warehouse |
| Expiry of Land Tenure | 15 January 2025 |
| Area ('000 square feet)<br>- Land/Gross floor | 105/69 |
| Purchase price (S$'000) | 2,502 |
| Development costs (S$'000) | - |
| Book value (S$'000) | 1,029 |

| North Fang Xun Road, Hecheng Street (Fuwan), Gaoming District, Foshan, Guangzhou, China | |
|---|---|
| Description | Warehouse / 5-storey dormitory |
| Purpose | Warehouse |
| Expiry of Land Tenure | 30 December 2050 |
| Area ('000 square feet)<br>- Land/Gross floor | 441/287 |
| Purchase price (S$'000) | 10,000 |
| Development costs (S$'000) | 100 |
| Book value (S$'000) | 9,059 |

| 18C Sungei Kadut Street 4, Singapore 729066 | |
|---|---|
| Description | Warehousing/ Production/<br>2-storey ancillary building |
| Purpose | Marble processing facility |
| Expiry of Land Tenure | 15 September 2025 |
| Area ('000 square feet)<br>- Land/Gross floor | 56/46 |
| Purchase price (S$'000) | 1,430 |
| Development costs (S$'000) | 2,938 |
| Book value (S$'000) | 2,824 |

# 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.

This is the first year that Hafary is preparing a sustainability report. This report has been prepared in accordance with the GRI Standards: Core option. The report is for the financial year ended 31 December 2017 and is not externally assured.

## Stakeholder Engagement
We aim to align our business interests with that of our stakeholders. Our key stakeholders and our commitment to them are as follows:

| Stakeholders | Hafary's commitment |
|---|---|
| Customers | Maximise customers' satisfaction by keeping our product offerings up-to-date and providing a pleasant shopping experience. |
| 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. |
| Local communities | Support to charitable causes through our CSR initiatives. |
| Shareholders | Maximise the value of shareholders through strengthening our financial fundamentals. |
| Suppliers | Cultivate and maintain cordial relationships with our suppliers through adherence to trading norms. |

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.

## Key Sustainability Issues
For this inaugural report, we engaged internal stakeholders to identify key sustainability issues. A survey was conducted on all heads of department and key executives to assist management in determining key sustainability issues. This process enabled us to identify our non-financial value chain across the EESG aspects. Findings from this survey were presented to the board for approval.

Our top 5 key sustainability issues are:

1) Customer service excellence
2) Data and IT security
3) Economic performance
4) Ethics and anti-corruption practices
5) Product quality

These key sustainability issues are monitored and managed by the management regularly. The effectiveness of the management approaches are reviewed from time to time via various mechanisms such as benchmarking to market practices and norms, review of stakeholders' feedback and performance indicators.

## Human Resources (HR)
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 are 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.

The Group has 328 permanent and full-time employees and does not have any temporary and/or part-time employees. Amount of work provided by casual labour is not significant.

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

| Gender | FY2017 | | FY2016 | |
|---|---|---|---|---|
| | Number | % | Number | % |
| Male | 196 | 60 | 188 | 59 |
| Female | 132 | 40 | 130 | 41 |
| Total | 328 | 100 | 318 | 100 |

| Region | FY2017 | | FY2016 | |
|---|---|---|---|---|
| | Number | % | Number | % |
| Singapore | 80 | 24 | 81 | 25 |
| Singapore PR | 39 | 12 | 32 | 10 |
| Malaysia | 79 | 24 | 78 | 25 |
| India | 67 | 20 | 65 | 19 |
| China | 51 | 16 | 52 | 16 |
| Others | 12 | 4 | 10 | 5 |
| Total | 328 | 100 | 318 | 100 |

## Code of Conduct and Ethics
The Company's Code of Conduct for Employees, 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 HR Department.

# SUSTAINABILITY REPORT

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.

### 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

Hafary Pte Ltd, the main subsidiary of the Group, is a member of Singapore Renovation Contractors and Material Suppliers Association.

### Corporate Social Responsibility

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:

– Club Rainbow Singapore
– Kidney Dialysis Foundation
– PAP Community Foundation
– POSB PAssion Kids Fund
– Promisedland Community Services
– Singapore Chung Hwa Medical Institution
– Singapore Thong Chai Medical Institution

**GRI 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<br>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<br>Corporate information Pg. 28 | – |
| 102-4 | Location of operations | Group structure Pg. 17<br>Note 3A of Financial statements Pg. 78 | – |
| 102-5 | Ownership and legal form | Statistics of shareholdings Pg. 122 and 123 | – |
| 102-6 | Markets served | Corporate profile Pg. 1<br>Group structure Pg. 17<br>Note 4E of Financial statements Pg. 84 | – |
| 102-7 | Scale of the organisation | Corporate profile Pg. 1<br>Sustainability report Pg. 25<br>Financial statements Pg. 52 to 121<br>Statistics of shareholdings Pg. 122 and 123 | – |
| 102-8 | Information on employees and other workers | Sustainability report Pg. 25 and 26 | – |
| 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<br>Statistics of shareholdings Pg. 122 and 123 | There is no significant change to the supply chain that can cause or contribute to significant economic, environmental and social impacts. |
| 102-11 | Precautionary Principle or approach | Corporate governance statement Pg. 29 to 51 | Please refer to 'Corporate governance statement' for the Company's approach to risk management.<br><br>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. |

**GRI Content Index**

| Disclosure no. | Disclosure | Annual report section and page no. | Remarks |
|---|---|---|---|
| 102-12 | External initiatives | Sustainability report Pg. 26 | – |
| 102-13 | Membership of associations | Sustainability report Pg. 26 | – |
| 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 | |
| 4. Governance | | | |
| 102-18 | Governance structure | Corporate governance statement Pg. 29 to 51 Sustainability report Pg. 25 | – |
| 5. Stakeholder engagement | | | |
| 102-40 | List of stakeholder groups | Sustainability report Pg. 25 | – |
| 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 | – |
| 102-43 | Approach to stakeholder engagement | Sustainability report Pg. 25 | – |
| 102-44 | Key topics and concerns raised | CEO's statement Pg. 10 and 11 Sustainability report Pg. 25 | – |
| 6. Reporting practice | | | |
| 102-45 | Entities included in the consolidated financial statements | Financial statements Pg. 94 to 99 | – |
| 102-46 | Define report content and topic Boundaries | Sustainability report Pg. 25 | – |
| 102-47 | List of material topics | Sustainability report Pg. 25 | – |
| 102-48 | Restatements of information | – | This is the first sustainability report prepared by the Company. |
| 102-49 | Changes in reporting | – | This is the first sustainability report prepared by the Company. |
| 102-50 | Reporting period | Sustainability report Pg. 25 | – |
| 102-51 | Date of most recent report | – | This is the first sustainability report prepared by the Company. |
| 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. 26 and 27 | – |
| 102-56 | External assurance | Sustainability report Pg. 25 | 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 | – |
| 103-2 | The management approach and its components | Sustainability report Pg. 25 | – |
| 103-3 | Evaluation of management approach | Sustainability report Pg. 25 | – |

# 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**").

**► 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") |
| 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:

- Providing entrepreneurial leadership, setting the strategic direction and overall corporate policies (including ethical standards) of the Group;
- 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;
- Ensuring the adequacy of internal controls, risk management processes and financial reporting and compliance;
- Monitoring financial performance, including approval of the full year and quarterly financial reports of the Group;
- Approving corporate actions, major investment and funding decisions of the Group; and
- 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.

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.

# CORPORATE GOVERNANCE STATEMENT

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 2017 ("FY2017") 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 | 3 | 3* | – | – |
| Ms Cheah Yee Leng | 4 | 4* | 1* | 1* |
| Mr Yeow Wai Siaw[1] | 4 | 4* | 1* | 1* |
| Mr Yong Teak Jan @ Yong Teck Jan[2] | – | – | – | – |
| Mr Terrance Tan Kong Hwa | 4 | 4 | 1 | 1 |
| Mr Chow Wen Kwan Marcus | 4 | 4 | 1 | 1 |

**Legend:**

1 Resigned as director of the Company on 31 December 2017.

2 Appointed as director of the Company on 18 January 2018.

* 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

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:

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

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
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.

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.

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

The details of updates and training programmes attended by the directors during FY2017 include:

- The external auditor, RSM Chio Lim LLP, briefed the AC and the Board on the developments in the Singapore Financial Reporting Standards.
- The outsourced secretarial agent, Boardroom Corporate & Advisory Services Pte Ltd, briefed the AC and the Board on updates in the listing rules and Companies' Act.
- The management updates the Board at each Board meeting on the business and strategic developments pertaining to the Group's business.
- Seminars such as Financial Reporting Standards Annual Update 2017 organised by ISCA, SID Directors' Conference 2017 and Audit Committee Seminar 2017 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. Mr Yong Teak Jan @ Yong Teck Jan was appointed to the Board on 18 January 2018. The Company conducted an orientation for Mr Yong on 24 November 2017.

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. A formal letter setting out duties and responsibilities as a director has been issued to Mr Yong Teak Jan @ Yong Teck Jan, who was appointed on Board on 18 January 2018.

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

# CORPORATE GOVERNANCE STATEMENT

**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:

(i) The Chairman and CEO are not the same person;
(ii) The Chairman and CEO are not immediate family members;
(iii) The Chairman is not part of the management team; and
(iv) 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.

None of the Independent Directors have served on the Board beyond nine years from the date of his first appointment.

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

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.

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

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 directors possess the necessary competencies to provide the management with a diverse and objective perspective on issues so as to lead and govern the Company effectively. Currently, the Company has a female member on the Board, namely Ms Cheah Yee Leng.

# CORPORATE GOVERNANCE STATEMENT

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. No one individual should represent a considerable concentration of power.**

**► 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.

The Company is not required to have a lead independent director.

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.

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

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

# CORPORATE GOVERNANCE STATEMENT

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.
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. 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:

Mr Ong Beng Chye
Datuk Edward Lee Ming Foo

Pursuant to Article 108 of the Company's Constitution, any director so appointed shall hold office only until the next AGM and shall then be eligible for re-election.

The NC has also recommended that Mr Yong Teak Jan @ Yong Teck Jan who has been appointed as Director of the Company on 18 January 2018 be put forward for re-election at the forthcoming AGM.

The Board has accepted these recommendations and being eligible, Mr Ong Beng Chye, Datuk Edward Lee Ming Foo and Mr Yong Teak Jan @ Yong Teck Jan will be offering themselves for re-election at the forthcoming Annual General Meeting.

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

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

The NC is 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 4.4 of the Code: Multiple board representation

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.

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 FY2017, notwithstanding that they hold directorships in other private and listed companies and have other principal commitments, and will continue to do so in FY2018.

# CORPORATE GOVERNANCE STATEMENT

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
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
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

# CORPORATE GOVERNANCE STATEMENT

**► Principle 5 of the Code: BOARD PERFORMANCE**

**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.**

► 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 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.

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 FY2017.

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

**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.**

► 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

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.

During FY2017, 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.

# CORPORATE GOVERNANCE STATEMENT

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

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.

# CORPORATE GOVERNANCE STATEMENT

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 Annual General Meeting.

► 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

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 is no onerous termination clause.

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

**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.**

**► Principle 8 of the Code: LEVEL AND MIX OF REMUNERATION**

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 FY2017, variable or performance related income/bonus made up 20% to 58% of the total remuneration of each executive director and 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.

► 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

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.

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

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

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.

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

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.

Names of 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 the reporting year, the number of performance shares granted, vested and cancelled under the Hafary PSP are as follows:

| | **Number of Hafary performance shares** | | | | |
|---|---|---|---|---|---|
| **Granting date** | **As at 1 January 2017** | **Granted during the year** | **Vested during the year** | **Cancelled/ lapsed during the year** | **As at 31 December 2017** |
| 1 August 2014 | **1,300,000** | – | (1,300,000) | – | – |
| 1 March 2016 | **250,000** | – | (250,000) | – | – |
| Total | **1,550,000** | – | (1,550,000) | – | – |

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

# CORPORATE GOVERNANCE STATEMENT

All Non-Executive Directors and Independent Directors have no service agreements with the Company and do not receive any remuneration from the Company. They are paid directors' fees, which are determined by the Board based on 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 8.3 of the Code:
Remuneration of non-executive directors dependent on contribution, effort, time spent and responsibilities

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

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

**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, 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

# CORPORATE GOVERNANCE STATEMENT

A breakdown showing the band and mix of each director's remuneration for the FY2017 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 | – | **42** | **58** | **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 Yeow Wai Siaw | **100** | – | – | **100** |
| Mr Ong Beng Chye | **100** | – | – | **100** |
| Mr Terrance Tan Kong Hwa | **100** | – | – | **100** |
| Mr Chow Wen Kwan Marcus | **100** | – | – | **100** |

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 FY2017 is as follows:

| Remuneration band and name of key management personnel | Fixed salary (%) | Variable or performance-related bonus (%) | Performance shares awarded (%) | Total (%) |
|---|---|---|---|---|
| **S$250,000 to S$499,999** | | | | |
| Mr Tay Eng Kiat Jackson | **70** | **23** | **7** | **100** |
| Mr Goh Keng Boon Frank | **75** | **22** | **3** | **100** |
| **Below S$250,000** | | | | |
| Mr Koh Yew Seng Mike | **73** | **23** | **4** | **100** |
| Mr Cheong Ching Hing Simon | **73** | **23** | **4** | **100** |
| Mr Tay Chye Heng Stephen | **78** | **20** | **2** | **100** |

The total remuneration paid to the top five key management personnel (who are not directors or the CEO of the Company) for FY2017 was S$1,148,000.

# CORPORATE GOVERNANCE STATEMENT

"Immediate family member" means spouse, child, adopted child, step-child, brother, sister and parent. There is no employee of the Company and its subsidiaries who was an immediate family member of a director or the CEO and whose remuneration exceeded S$50,000 during FY2017.

► 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 Executive Director, amount of variable bonus payment (i.e. performance bonus) for a 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<br>3.0% of PBT in excess of S$3 million |
| Above S$5 million | S$105,000 plus<br>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.

**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.

► 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 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 and other information before their release. The Company's Annual Report is available on request and accessible on the Company's website.

# CORPORATE GOVERNANCE STATEMENT

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

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

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 Rules and completing the relevant disclosure checklists.
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

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

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
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.

# CORPORATE GOVERNANCE STATEMENT

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 Financial Controller 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 Financial Controller 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 2017 which the Group considers relevant and material to its current business scope and environment.

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

# CORPORATE GOVERNANCE STATEMENT

**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);
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;
g. 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.

# CORPORATE GOVERNANCE STATEMENT

## SIGNIFICANT ACCOUNTING MATTERS

In the review of the financial statements for FY2017, 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 FY2017. Please refer to Independent Auditor's Report in Financial Statements FY2017.

| Key audit matters | How the matters were addressed by the AC |
|---|---|
| Recoverability of trade receivables | Net trade receivables amounted to S$31.6 million as at 31 December 2017.<br><br>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.<br><br>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 2017 and the relating disclosures in the financial statements are appropriate. |
| Impairment allowance on inventories | Net inventories amounted to S$51.3 million as at 31 December 2017.<br><br>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.<br><br>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 2017. |

# CORPORATE GOVERNANCE STATEMENT

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 FY2017, 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

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 FY2017 audit and non-audit services are S$195,000 and S$15,000 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.

# CORPORATE GOVERNANCE STATEMENT

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 the financial year ended 31 December 2017, 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

The AC does not comprise a former partner or director of 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

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

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

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

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.

► 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 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.

**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.**

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

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

# CORPORATE GOVERNANCE STATEMENT

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.

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

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 Rules 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 Operation Director. 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 FY2017 as follows:

a. Annual General Meeting
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 FY2017, the Company had declared and paid two interim dividends (tax exempt one-tier) totalling 1.0 cents per ordinary share. The Board has also proposed a final dividend of 0.5 cent per ordinary share for approval at the forthcoming Annual General Meeting.

**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 annual 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.

**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 FY2017.

# CORPORATE GOVERNANCE STATEMENT

**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 Annual General Meeting.

**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 FY2017.

**Table 1:**

| Name of Interested Person | Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than $100,000) | | | |
|---|---|---|---|---|
| | Conducted under shareholders' mandate pursuant to Rule 920 | | Not conducted under shareholders' mandate pursuant to Rule 920 | |
| | FY2017 | FY2016 | FY2017 | FY2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Purchases from Malaysian Mosaic Sdn Bhd | 6,983 | 3,169 | – | 394 |
| Purchases from MML Marketing Pte Ltd | 1,255 | 1,216 | – | 481 |
| Incorporation of Hafary Balestier Showroom Pte Ltd for purpose of acquisition of a freehold property (Refer to announcement dated 20 May 2016): Low See Ching | – | – | – | 2,066 |

# STATEMENT BY DIRECTORS AND FINANCIAL STATEMENTS

# 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 2017.

## 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 2017 and 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:

Ong Beng Chye
Low Kok Ann
Datuk Edward Lee Ming Foo, JP
Low See Ching
Cheah Yee Leng
Terrance Tan Kong Hwa
Chow Wen Kwan Marcus
Yong Teak Jan @ Yong Teck Jan (Appointed on 18 January 2018)

## 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 2018 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, and is administered by the Plan Committee, comprising the Remuneration Committee and the CEO, who is authorised and appointed by the Board.

Name of members of the Plan Committee:

Mr Chow Wen Kwan Marcus (Chairman)
Mr Ong Beng Chye
Mr Terrance Tan Kong Hwa
Mr 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.

# STATEMENT BY DIRECTORS

5. **OPTIONS (CONT'D)**

During the reporting year, the number of performance shares granted, vested and cancelled under the Hafary PSP are as follows:

| | Number of Hafary performance shares | | | | |
|---|---|---|---|---|---|
| **Grant date** | **As at 1 January 2017** | **Granted during the year** | **Vested during the year** | **Cancelled/lapsed during the year** | **As at 31 December 2017** |
| 1 August 2014 | 1,300,000 | – | (1,300,000) | – | – |
| 1 March 2016 | 250,000 | – | (250,000) | – | – |
| | 1,550,000 | – | (1,550,000) | – | – |

On 3 July 2017, the company issued and alloted 1,550,000 new ordinary shares in the issued and paid-up capital of the company to selected eligible employees of the company pursuant to the vesting of awards 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.

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 2017** | **Aggregate performance shares granted since commencement of the Plan to 31 December 2017** | **Aggregate performance shares vested since commencement of the Plan to 31 December 2017** | **Aggregate performance shares outstanding at 31 December 2017** |
| Other participants | – | 1,800,000 | 1,550,000 | – |

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) |
| Terrance Tan Kong Hwa | (Independent Director) |
| Chow Wen Kwan Marcus | (Independent Director) |

# STATEMENT BY DIRECTORS

**7. REPORT OF AUDIT COMMITTEE (CONT'D)**

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).

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 auditor objectivity and independence is safeguarded where the independent 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 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 auditor, 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 2017.

**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 26 February 2018, 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 |

19 March 2018

# 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 2017, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and 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 Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the group and the financial position of the company as at 31 December 2017 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 24 and 38D for the breakdown in trade receivables and credit risk of the group respectively.

*Key Audit Matter*

Trade receivables totaled $31,645,000 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.

*How we addressed the matter in our audit*

For the samples selected 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. 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.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HAFARY HOLDINGS LIMITED

**Key audit matters (cont'd)**

**(2) Impairment allowance on inventories**

Refer to Note 2 for the relevant accounting policy and Note 23 for the breakdown in inventories at the reporting year end.

*Key Audit Matter*

The group holds inventories of $51,250,000 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.

**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.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HAFARY HOLDINGS LIMITED

**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.

(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.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HAFARY HOLDINGS LIMITED

**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

19 March 2018

Engagement partner – effective from year ended 31 December 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Revenue** | 5 | **115,834** | 109,635 |
| Interest income | 6 | **58** | 66 |
| Dividend income | 7 | **–** | 12 |
| Other gains | 8 | **608** | 534 |
| Changes in inventories of goods held for resale | | **1,444** | 4,369 |
| Purchases and related costs | | **(69,785)** | (69,632) |
| Employee benefits expense | 9 | **(18,515)** | (17,648) |
| Amortisation and depreciation expense | 16, 17, 18 | **(6,109)** | (4,357) |
| Impairment losses | 10 | **(1,843)** | (1,039) |
| Other losses | 8 | **(521)** | (591) |
| Finance costs | 11 | **(3,607)** | (2,717) |
| Other expenses | 12 | **(10,811)** | (11,062) |
| Share of profit from an equity-accounted associate | 20 | **3,277** | 1,899 |
| Share of (losses) profits from equity-accounted joint ventures | 21 | **(191)** | 33 |
| **Profit before income tax** | | **9,839** | 9,502 |
| Income tax expense | 13 | **(1,407)** | (1,593) |
| **Profit, net of tax** | | **8,432** | 7,909 |
| **Other comprehensive loss** | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Exchange differences on translating foreign operations, net of tax | 29A | **(652)** | (607) |
| **Total comprehensive income** | | **7,780** | 7,302 |
| | | | |
| **Profit attributable to:** | | | |
| – Owners of the parent, net of tax | | **8,745** | 8,170 |
| – Non-controlling interests, net of tax | | **(313)** | (261) |
| | | **8,432** | 7,909 |
| **Total comprehensive income attributable to:** | | | |
| – Owners of the parent | | **8,093** | 7,563 |
| – Non-controlling interests | | **(313)** | (261) |
| | | **7,780** | 7,302 |
| | | **Cents** | **Cents** |
| **Earnings per share** | | | |
| Basic | 14 | **2.03** | 1.90 |
| Diluted | 14 | **2.03** | 1.90 |

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

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2017 | 2016 | 2017 | 2016 |
| **ASSETS** | | **$'000** | **$'000** | **$'000** | **$'000** |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 16 | **111,225** | 114,371 | **167** | 234 |
| Other asset, non-current | 17 | **4,395** | 4,597 | **–** | – |
| Investment property | 18 | **4,247** | 4,265 | **–** | – |
| Investments in subsidiaries | 19 | **–** | – | **9,239** | 9,239 |
| Investment in an associate | 20 | **9,784** | 7,088 | **–** | – |
| Investments in joint ventures | 21 | **3,106** | 272 | **–** | – |
| Other financial assets, non-current | 22 | **2,636** | 2,569 | **586** | 488 |
| **Total non-current assets** | | **135,393** | 133,162 | **9,992** | 9,961 |
| **Current assets** | | | | | |
| Inventories | 23 | **51,250** | 50,876 | **–** | – |
| Trade and other receivables | 24 | **32,977** | 33,615 | **29,416** | 26,864 |
| Derivative financial assets | 34 | **–** | 292 | **–** | – |
| Other financial assets, current | 25 | **–** | 656 | **–** | – |
| Other assets, current | 26 | **4,899** | 4,250 | **4** | 4 |
| Cash and cash equivalents | 27 | **5,996** | 4,438 | **21** | 30 |
| **Total current assets** | | **95,122** | 94,127 | **29,441** | 26,898 |
| **Total assets** | | **230,515** | 227,289 | **39,433** | 36,859 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Share capital | 28 | **26,930** | 26,634 | **26,930** | 26,634 |
| Retained earnings (accumulated losses) | | **31,651** | 27,204 | **2,307** | (243) |
| Other reserves | 29 | **(549)** | 337 | **–** | 234 |
| **Equity, attributable to owners of the parent** | | **58,032** | 54,175 | **29,237** | 26,625 |
| Non-controlling interests | | **3,046** | 3,552 | **–** | – |
| **Total equity** | | **61,078** | 57,727 | **29,237** | 26,625 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 13 | **580** | 509 | **–** | – |
| Other financial liabilities, non-current | 30 | **86,898** | 90,039 | **54** | 88 |
| **Total non-current liabilities** | | **87,478** | 90,548 | **54** | 88 |
| **Current liabilities** | | | | | |
| Provision | 31 | **653** | 523 | **–** | – |
| Income tax payable | | **1,589** | 1,651 | **3** | 1 |
| Trade and other payables | 32 | **19,988** | 22,160 | **10,105** | 10,112 |
| Derivative financial liabilities | 34 | **229** | – | **–** | – |
| Other financial liabilities, current | 30 | **58,055** | 53,658 | **34** | 33 |
| Other liabilities | 33 | **1,445** | 1,022 | **–** | – |
| **Total current liabilities** | | **81,959** | 79,014 | **10,142** | 10,146 |
| **Total liabilities** | | **169,437** | 169,562 | **10,196** | 10,234 |
| **Total equity and liabilities** | | **230,515** | 227,289 | **39,433** | 36,859 |

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

# STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

| 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 2017 | **57,727** | **54,175** | **26,634** | **27,204** | **337** | **3,552** |
| **Movements in equity:** | | | | | | |
| Total comprehensive income (losses) for the year | **7,780** | **8,093** | **–** | **8,745** | **(652)** | **(313)** |
| Equity-settled share-based expenses (Note 29B) | **62** | **62** | **–** | **–** | **62** | **–** |
| Issuance of new ordinary shares under Hafary Performance Share Plan (Notes 28 and 29B) | **–** | **–** | **296** | **–** | **(296)** | **–** |
| Dividends paid (Note 15) | **(4,298)** | **(4,298)** | **–** | **(4,298)** | **–** | **–** |
| Dividends paid to non-controlling interests | **(193)** | **–** | **–** | **–** | **–** | **(193)** |
| **Closing balance at 31 December 2017** | **61,078** | **58,032** | **26,930** | **31,651** | **(549)** | **3,046** |
| | | | | | | |
| **Previous year:** | | | | | | |
| Opening balance at 1 January 2016 | 54,798 | 50,787 | 26,634 | 23,324 | 829 | 4,011 |
| **Movements in equity:** | | | | | | |
| Total comprehensive income (losses) for the year | 7,302 | 7,563 | – | 8,170 | (607) | (261) |
| Capital contribution by non-controlling interest | 150 | – | – | – | – | 150 |
| Equity-settled share-based expenses (Note 29B) | 115 | 115 | – | – | 115 | – |
| Dividends paid (Note 15) | (4,290) | (4,290) | – | (4,290) | – | – |
| Dividends paid to non-controlling interests | (348) | – | – | – | – | (348) |
| **Closing balance at 31 December 2016** | 57,727 | 54,175 | 26,634 | 27,204 | 337 | 3,552 |

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

# STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

| Company | Total equity $'000 | Share capital $'000 | (Accumulated losses) retained earnings $'000 | Other reserves $'000 |
|---|---|---|---|---|
| **Current 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 29B) | **62** | – | – | **62** |
| Issuance of new ordinary shares under Hafary Performance Share Plan (Notes 28 and 29B) | – | **296** | – | **(296)** |
| Dividends paid (Note 15) | **(4,298)** | – | **(4,298)** | – |
| **Closing balance at 31 December 2017** | **29,237** | **26,930** | **2,307** | – |
| | | | | |
| **Previous year:** | | | | |
| Opening balance at 1 January 2016 | 26,564 | 26,634 | (189) | 119 |
| **Movements in equity:** | | | | |
| Total comprehensive income for the year | 4,236 | – | 4,236 | – |
| Equity-settled share-based expenses (Note 29B) | 115 | – | – | 115 |
| Dividends paid (Note 15) | (4,290) | – | (4,290) | – |
| **Closing balance at 31 December 2016** | 26,625 | 26,634 | (243) | 234 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | **9,839** | 9,502 |
| Adjustments for: | | |
| Interest expense | **3,607** | 2,717 |
| Interest income | **(58)** | (66) |
| Dividend income | **–** | (12) |
| Amortisation of other asset | **133** | 135 |
| Depreciation of property, plant and equipment | **5,958** | 4,211 |
| Depreciation of investment property | **18** | 11 |
| Equity-settled share-based expenses | **62** | 115 |
| Gain on disposal of plant and equipment | **–** | (16) |
| Fair value (gains) losses on other financial assets, net | **(98)** | 305 |
| Share of profit from an equity-accounted associate | **(3,277)** | (1,899) |
| Share of losses (profits) from equity-accounted joint ventures | **191** | (33) |
| Net effect of exchange rate changes in consolidating subsidiaries | **(61)** | (7) |
| Operating cash flows before changes in working capital | **16,314** | 14,963 |
| Inventories | **(374)** | (3,897) |
| Trade and other receivables | **(757)** | 9,570 |
| Other assets | **(649)** | (449) |
| Provision | **130** | (2) |
| Trade and other payables | **(1,744)** | (237) |
| Derivative financial liabilities | **521** | (248) |
| Other liabilities | **423** | 127 |
| Net cash flows from operations | **13,864** | 19,827 |
| Income taxes paid | **(1,398)** | (3,464) |
| Net cash flows from operating activities | **12,466** | 16,363 |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment (Note 27B) | **(3,806)** | (28,776) |
| Purchase of investment property | **–** | (4,276) |
| Proceeds from disposal of plant and equipment | **252** | 27 |
| Investment in other financial asset | **–** | (656) |
| Redemption of other financial asset | **656** | – |
| Investment in a joint venture | **(3,090)** | – |
| Net movements in amount due from an associate | **1,395** | – |
| Dividend income from an associate | **209** | 195 |
| Dividend income from a joint venture | **35** | 79 |
| Dividend income from a quoted corporation | **–** | 12 |
| Interest income received | **58** | 103 |
| Net cash flows used in investing activities | **(4,291)** | (33,292) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

| | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Dividends paid to equity owners | **(4,298)** | (4,290) |
| Dividends paid to non-controlling interests | **(193)** | (348) |
| Capital contribution from non-controlling interests | **–** | 150 |
| Net movements in amounts due to a director and a shareholder | **437** | 1,680 |
| Increase (decrease) in trust receipts and bills payable | **284** | (4,682) |
| Repayment of finance lease liabilities | **(598)** | (447) |
| Increase from new borrowings | **8,242** | 32,048 |
| Decrease in other financial liabilities | **(6,895)** | (7,881) |
| Interest expense paid | **(3,580)** | (3,350) |
| Net cash flows (used in) from financing activities | **(6,601)** | 12,880 |
| | | |
| **Net increase (decrease) in cash and cash equivalents** | **1,574** | (4,049) |
| Net effect of exchange rate changes on cash and cash equivalents | **(16)** | (44) |
| Cash and cash equivalents, beginning balance | **4,438** | 8,531 |
| **Cash and cash equivalents, ending balance (Note 27)** | **5,996** | 4,438 |

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

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 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 Dollars and they cover the company (referred to as "parent") 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 19 below.

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

**Accounting convention**

The financial statements have been prepared in accordance with the Financial Reporting Standards in Singapore ("FRSs") and the related Interpretations to FRS ("INT FRS") as issued by the Singapore Accounting Standards Council and the Companies Act, Chapter 50. The financial statements are prepared on a going concern basis under the historical cost convention except where an FRSs require an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. The accounting policies in FRSs may not be applied when the effect of applying them is not material. The disclosures required by FRSs need not be provided if the information resulting from that disclosure is not material. Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss, as required or permitted by FRSs.

**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.

**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 in which the assets, liabilities, equity, income, expenses and cash flows of 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, including income, expenses and cash flows 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. Control exists when the group has the power to govern the financial and operating policies so as to gain benefits from its activities.

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 FRS 39.

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

# NOTES TO THE FINANCIAL STATEMENTS



## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

### 2A. Significant accounting policies

**Revenue recognition**

The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the reporting year arising from the course of the activities of the entity and it is shown net of any related sales taxes, returns and rebates. Revenue from the sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from sale of goods which require installation is recognised by reference to the stage of completion of the transaction at the end of the reporting year measured by the entity's progress towards complete satisfaction of a performance obligation satisfied over time using the output method such as costs incurred relative to the total expected inputs to the satisfaction of that performance obligation and the amount of revenue, stage of completion, and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Revenue from rendering of services that are of short duration is recognised when the services are completed. 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. Dividend income from equity instruments is recognised when the entity's right to receive dividend is established. Interest income is recognised using the effective interest method.

**Construction contracts – revenues and results**

When the outcome of a construction contract can be estimated reliably, the contract revenue and contract costs associated with the contract are recognised in profit or loss by reference to the stage of completion of the contract activity at the end of the reporting year using the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs method except where this would not be representative of the stage of completion. Contract costs consist of costs that relate directly to the specific contract, costs that are attributable to contract activity in general and can be allocated to the contract and such other costs as are specifically chargeable to the customer under the terms of the contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed by the customer. The stage of completion method relies on estimates of total expected contract revenue and costs, as well as dependable measurement of the progress made towards completing a particular contract. Recognised revenues and profits are subject to revisions during the contract in the event that the assumptions regarding the overall contract outcome are revised. The cumulative impact of a revision in estimates is recorded in the period such revisions become likely and estimable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The work in progress contracts have operating cycles longer than one year. The management includes in current assets amounts relating to the contracts realisable over a period in excess of one year.

**Government grants**

A government grant is recognised at fair value when there is reasonable assurance that the conditions attaching to it will be complied with and that the grant will be received. Grants in recognition of specific expenses are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. A grant related to depreciable assets is allocated to income over the period in which such assets are used in the project subsidised by the grant. A government grant related to assets, including non-monetary grants at fair value, is presented in the statement of financial position by setting up the grant as deferred income.

**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 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

**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 of funds. 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.

**Foreign currency transactions**

The functional currency is the Singapore Dollars 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

**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.

**Associates**

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.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

**2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)**

**2A. Significant accounting policies (cont'd)**

**Associates (cont'd)**

In the equity accounted financial statements (economic interest financial statements), the accounting for investments in an associate is on the equity method. An investment in an associate includes goodwill on acquisition, which is accounted for in accordance with FRS 103 Business Combinations. However the entire carrying amount of the investment is tested under FRS 36 for impairment, by comparing its recoverable amount (higher of value in use and fair value) with its carrying amount, whenever application of the requirements in FRS 39 indicates that the investment may be impaired. 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 an 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 FRS 39 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 venture**

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 FRS 28 Investments in Associates and Joint Ventures (as described for associates above).

**Business combinations**

Business combinations are accounted for by applying the acquisition method. There were no acquisition during the reporting year.

**Segment reporting**

The reporting entity 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 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

**Property, plant and equipment**

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.

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. 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. An investment property that meets the criteria to be classified as held for sale is carried at the lower of carrying amount and fair value. 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. The annual rate of depreciation is as follows:

| | | |
|---|---|---|
| Freehold building | – | 5% |

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

**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 of 37 years, which is 3% per annum.

**2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)**

**2A. Significant accounting policies (cont'd)**

**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**

Irrespective of whether there is any indication of impairment, an annual impairment test is performed at the same time every year on an intangible asset with an indefinite life or an intangible asset not yet available for use. The carrying amount of other 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.

**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.

# NOTES TO THE FINANCIAL STATEMENTS



## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

**Financial assets**

Initial recognition, measurement and derecognition:

A financial asset is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. The initial recognition of financial assets is at fair value normally represented by the transaction price. The transaction price for financial asset not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs incurred on the acquisition or issue of financial assets classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date.

Irrespective of the legal form of the transactions performed, financial assets are derecognised when they pass the "substance over form" based on the derecognition test prescribed by FRS 39 relating to the transfer of risks and rewards of ownership and the transfer of control. Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Subsequent measurement:

Subsequent measurement based on the classification of the financial assets in one of the following categories under FRS 39 is as follows:

1. Financial assets at fair value through profit or loss: Assets are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading assets) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or have been classified in this category because the conditions are met to use the "fair value option" and it is used. All changes in fair value relating to assets at fair value through profit or loss are recognised directly in profit or loss.

2. Held-to-maturity financial assets: As at end of the reporting year, there were no financial assets classified in this category.

3. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that are for sale immediately or in the near term are not classified in this category. These assets are carried at amortised costs using the effective interest method (except that short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant) minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Impairment charges are provided only when there is objective evidence that an impairment loss has been incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The methodology ensures that an impairment loss is not recognised on the initial recognition of an asset. Losses expected as a result of future events, no matter how likely, are not recognised. For impairment, the carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Typically the trade and other receivables are classified in this category.

# NOTES TO THE FINANCIAL STATEMENTS



**2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)**

**2A. Significant accounting policies (cont'd)**

**Financial assets (cont'd)**

Subsequent measurement (cont'd):

4. Available-for-sale financial assets: These are non-derivative financial assets that are designated as available-for-sale on initial recognition or are not classified in one of the previous categories. These assets are carried at fair value. Changes in fair value of available-for-sale financial assets (other than those relating to foreign exchange translation differences on monetary investments) are recognised in other comprehensive income and accumulated in a separate component of equity under the heading revaluation reserves. Such reserves are reclassified to profit or loss when realised through disposal. When there is objective evidence that the asset is impaired, the cumulative loss is reclassified from equity to profit or loss as a reclassification adjustment. A significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment. If, in a subsequent period, the fair value of an equity instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss, it is reversed against revaluation reserves and is not subsequently reversed through profit or loss. However for debt instruments classified as available-for-sale impairment losses recognised in profit or loss are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. For non-equity instruments classified as available-for-sale the reversal of impairment is recognised in profit or loss. The weighted average method is used when determining the cost basis of publicly listed equities being disposed of. This category does not include subsidiaries, joint ventures, or associates. Unquoted investments are stated at cost less allowance for impairment in value where there are no market prices, and management is unable to establish fair value by using valuation techniques except that where management can establish fair value by using valuation techniques the relevant unquoted investments are stated at fair value. For unquoted equity instruments impairment losses are not reversed.

**Cash and cash equivalents**

Cash and cash equivalents include bank and cash balances and on demand deposits. 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.

**Hedging**

The entity is exposed to currency and interest rate risks. The policy is to reduce currency exposures through derivatives and other hedging instruments. From time to time, there may be foreign exchange arrangements or similar instruments entered into as hedges against changes in cash flows or the fair values of the financial assets and liabilities. The gain or loss from remeasuring these hedging or other arrangement instruments at fair value are recognised in profit or loss. The derivatives and other hedging instruments used are described below in the notes to the financial statements.

**Derivatives**

All derivatives are initially recognised and subsequently carried at fair value. Certain derivatives are entered into in order to hedge some transactions and all the strict hedging criteria prescribed by FRS 39 are not met. In those cases, even though the transaction has its economic and business rationale, hedge accounting cannot be applied. As a result, changes in the fair value of those derivatives are recognised directly in profit or loss and the hedged item follows normal accounting policies.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

**Financial liabilities**

Initial recognition, measurement and derecognition:

A financial liability is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument and it is derecognised when the obligation specified in the contract is discharged or cancelled or expires. The initial recognition of financial liability is at fair value normally represented by the transaction price. The transaction price for financial liability not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Transaction costs incurred on the acquisition or issue of financial liability classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date.

Subsequent measurement:

Subsequent measurement based on the classification of the financial liabilities in one of the following categories under FRS 39 is as follows:

1. Liabilities at fair value through profit or loss: Liabilities are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading liabilities) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or have been classified in this category because the conditions are met to use the "fair value option" and it is used. All changes in fair value relating to liabilities at fair value through profit or loss are charged to profit or loss as incurred.

2. Liabilities at amortised cost: These liabilities are carried at amortised cost using the effective interest method.

**Fair value measurement**

When measuring fair value, management uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. It is a market-based measurement, not an entity-specific measurement. 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. In making the fair value measurement, management determines the following: (a) the particular asset or liability being measured (these are identified and disclosed in the relevant notes below); (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation techniques to use when measuring fair value. The valuation techniques used maximise the use of relevant observable inputs and minimise unobservable inputs. These inputs are consistent with the inputs a market participant may use when pricing the asset or liability.

The fair value measurements categorise the input used to measure fair value by using a fair value hierarchy of three levels. These are recurring fair value measurements unless state otherwise in the relevant notes to the financial statements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The level is measured on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting year. If a financial instrument measured at fair value has a bid price and an ask price, the price within the bid-ask spread or mid-market pricing that is most representative of fair value in the circumstances is used to measure fair value regardless of where the input is categorised within the fair value hierarchy. If there is no market, or the markets available are not active, the fair value is established by using an acceptable valuation technique.

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.

# NOTES TO THE FINANCIAL STATEMENTS



**2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)**

**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.

**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 excess inventory 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, technical assessment 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 doubtful trade accounts:
An allowance is made for doubtful trade accounts for estimated losses resulting from the subsequent inability of the customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. To the extent that it is feasible impairment and uncollectibility is determined individually for each item. In cases where that process is not feasible, a collective evaluation of impairment is performed. At the end of the reporting year, the trade receivables carrying amount approximates the fair value and the carrying amounts might change materially within the next reporting year but these changes would 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.

Income tax amounts:
The entity recognises tax liabilities and assets tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual amount arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax amounts in the period when such determination is made. In addition management judgement is required in determining the amount of current and deferred tax recognised and the extent to which amounts should or can be recognised. A deferred tax asset is recognised if it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the management making assumptions within its overall tax planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. Moreover, the measurement of a deferred tax asset or liability reflects the manner in which the entity expects to recover the asset's carrying value or settle the liability. As a result, due to their inherent nature assessments of likelihood are judgmental and not susceptible to precise determination. The income tax amounts are disclosed in the Note on income tax.

# NOTES TO THE FINANCIAL STATEMENTS



## 3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

FRS 24 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 financial guarantee 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 | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Associate:** | | |
| Sale of goods | **(12)** | (168) |
| Interest income | **(46)** | (49) |
| **Joint venture:** | | |
| Sale of goods | **(515)** | (516) |
| Rental income | **(692)** | (780) |
| Disposal of plant and equipment | **(252)** | – |
| Receiving of services | **1,411** | 2,129 |
| Rental expense | **6** | 38 |
| **Director:** | | |
| Rental expense | – | 3 |
| **Other related parties:** | | |
| Sale of goods | **(38)** | (27) |
| Rental income | **(126)** | (62) |
| Purchases of goods | **8,318** | 5,260 |
| Rental expenses | **55** | 26 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

### 3C. Key management compensation

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Salaries and other short-term employee benefits | **2,200** | 2,308 |

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Remuneration of director of the company | **577** | 579 |
| Fees to directors of the company | **231** | 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 (2016: 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 | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Joint ventures** | | |
| Balance at beginning of the year | **656** | 773 |
| Amounts paid out and settlement of liabilities on behalf of the joint ventures | **1,378** | 1,133 |
| Amounts paid in and settlement of liabilities on behalf of the group | **(1,540)** | (1,250) |
| Balance at end of the year | **494** | 656 |
| | | |
| Presented in the statement of financial position as follows: | | |
| Other receivable (Note 24) | **536** | 656 |
| Other payable (Note 32) | **(42)** | – |
| | **494** | 656 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

### 3D. Other receivables from and other payables to related parties (cont'd)

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Other receivable from associate:** | | |
| Balance at beginning of the year | **1,446** | 1,452 |
| Interest income (Note 6) | **46** | 49 |
| Foreign exchange adjustments (losses) gains | **(97)** | 31 |
| Amounts paid in and settlement of liabilities on behalf of the group | – | (86) |
| Repayment of loan and interest income | **(1,395)** | – |
| Balance at end of the year (Note 24) | – | 1,446 |

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Other payable to director:** | | |
| Balance at beginning of the year | **2,176** | 1,070 |
| Amounts paid in | **437** | 1,106 |
| Balance at end of the year (Note 32) | **2,613** | 2,176 |

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Other payable to shareholder:** | | |
| Balance at beginning of the year | **2,718** | 2,144 |
| Amounts paid in | – | 574 |
| Balance at end of the year (Note 32) | **2,718** | 2,718 |

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Subsidiaries** | | |
| Balance at beginning of the year | **13,931** | 14,029 |
| Amounts paid out and settlement of liabilities on behalf of subsidiaries | **159** | 3,778 |
| Amounts paid in and settlement of liabilities on behalf of the company | **(1,950)** | (8,346) |
| Dividend income | **6,698** | 4,470 |
| Balance at end of the year | **18,838** | 13,931 |
| | | |
| Presented in the statement of financial position as follows: | | |
| Other receivables (Note 24) | **28,238** | 23,331 |
| Other payables (Note 32) | **(9,400)** | (9,400) |
| | **18,838** | 13,931 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 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 FRS 108 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 products of the operating 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 property development.

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.

# NOTES TO THE FINANCIAL STATEMENTS



## 4. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONT'D)

### 4B. Profit or loss from continuing operations and reconciliations

| | General $'000 | Project $'000 | Others $'000 | Unallocated $'000 | Group $'000 |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Revenue by segment: | | | | | |
| 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 | **(3,734)** | **(2,356)** | **(19)** | **–** | **(6,109)** |
| Finance costs | **(2,739)** | **(803)** | **(65)** | **–** | **(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 | **4,683** | **240** | **4,797** | **119** | **9,839** |
| Income tax expense | | | | | **(1,407)** |
| Profit from continuing operations | | | | | **8,432** |
| **2016** | | | | | |
| Revenue by segment: | | | | | |
| Total revenue by segment | 74,428 | 74,481 | 4,937 | 48 | 153,894 |
| Inter-segment sales | (18,252) | (23,561) | (2,446) | – | (44,259) |
| Total revenue | 56,176 | 50,920 | 2,491 | 48 | 109,635 |
| Recurring EBITDA | 8,912 | 3,752 | 1,932 | 48 | 14,644 |
| Amortisation and depreciation expense | (2,770) | (1,576) | (11) | – | (4,357) |
| Finance costs | (2,230) | (453) | (34) | – | (2,717) |
| Share of profit from an equity-accounted associate | – | – | 1,899 | – | 1,899 |
| Share of profit from an equity-accounted joint venture | – | – | 33 | – | 33 |
| ORBIT | 3,912 | 1,723 | 3,819 | 48 | 9,502 |
| Income tax expense | | | | | (1,593) |
| Profit from continuing operations | | | | | 7,909 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 4. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONT'D)

### 4C. Assets, liabilities and reconciliations

| | General $'000 | Project $'000 | Others $'000 | Unallocated $'000 | Group $'000 |
|---|---|---|---|---|---|
| **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** |
| **2016:** | | | | | |
| Segment assets | 148,261 | 66,734 | 12,294 | – | 227,289 |
| Segment liabilities | 117,893 | 46,419 | 3,090 | – | 167,402 |
| Deferred tax liabilities | | | | | 509 |
| Income tax payable | | | | | 1,651 |
| Total liabilities | | | | | 169,562 |

### 4D. Other material items and reconciliations

| | General $'000 | Project $'000 | Others $'000 | Unallocated $'000 | Group $'000 |
|---|---|---|---|---|---|
| Impairment of assets: | | | | | |
| 2017 | **1,648** | **195** | **–** | **–** | **1,843** |
| 2016 | 736 | 303 | – | – | 1,039 |
| Expenditure for non-current assets: | | | | | |
| 2017 | **1,986** | **1,151** | **–** | **–** | **3,137** |
| 2016 | 13,321 | 7,639 | 4,276 | – | 25,236 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 4. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONT'D)

### 4E. Geographical Information

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Singapore | **108,475** | 106,655 | **110,463** | 113,874 |
| People's Republic of China | **721** | 109 | **12,510** | 9,631 |
| Socialist Republic of Vietnam | **792** | 289 | **9,784** | 7,088 |
| Republic of the Union of Myanmar | **472** | 769 | – | – |
| Republic of Indonesia | **496** | 646 | – | – |
| Cambodia | **3,015** | 109 | – | – |
| Malaysia | **861** | 62 | – | – |
| Maldives | **708** | 32 | – | – |
| Others | **294** | 964 | – | – |
| Total continuing operations | **115,834** | 109,635 | **132,757** | 130,593 |

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 and deferred tax assets.

### 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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Sale of goods | **108,027** | 101,907 |
| Revenue from installation services | **5,404** | 5,191 |
| Rental income (Note 37) | **2,284** | 2,491 |
| Other income | **119** | 46 |
| Total revenue | **115,834** | 109,635 |

## 6. INTEREST INCOME

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Interest income from an associate (Note 3) | **46** | 49 |
| Other interest income | **12** | 17 |
| Total interest income | **58** | 66 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 7. DIVIDEND INCOME

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Dividend income from a quoted corporation | – | 12 |

## 8. OTHER GAINS AND (OTHER LOSSES)

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Fair value (losses) gains on derivative financial instruments, net (Note 34) | (521) | 248 |
| Fair value gains (losses) on other financial assets, net (Note 22A) | 98 | (305) |
| Foreign exchange adjustment gains (losses), net | 181 | (286) |
| Gain on disposal of plant and equipment | – | 16 |
| Government grants income | 100 | 203 |
| Insurance compensation | 18 | 2 |
| Other compensation income | 41 | 57 |
| Other payables written-off | 20 | – |
| Sponsorship income | – | 8 |
| Trade payables written-off | 150 | – |
| Net | 87 | (57) |
| Presented in profit or loss as: | | |
| Other gains | 608 | 534 |
| Other losses | (521) | (591) |
| | 87 | (57) |

## 9. EMPLOYEE BENEFITS EXPENSE

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Salaries, bonuses and other short-term benefits | 15,817 | 15,022 |
| Contributions to defined contribution plan | 2,636 | 2,511 |
| Equity-settled share-based expenses (Note 29B) | 62 | 115 |
| Total employee benefits expense | 18,515 | 17,648 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 10. IMPAIRMENT LOSSES

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Allowance for impairment of inventories (Note 23) | **1,499** | 472 |
| Allowance for impairment of trade receivables (Note 24) | **187** | 583 |
| Allowance for impairment of trade receivables, reversal (Note 24) | **–** | (16) |
| Bad debts recovered – trade receivables | **(60)** | (40) |
| Bad debts written-off – trade receivables | **217** | 40 |
| Total impairment losses | **1,843** | 1,039 |

## 11. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Interest expense on: | | |
| – bank loans | **2,752** | 2,558 |
| – bill payables | **824** | 675 |
| – finance lease liabilities | **31** | 26 |
| Subtotal | **3,607** | 3,259 |
| Less: amounts included in the cost of qualifying assets | | |
| – property, plant and equipment (Note 16) | **–** | (542) |
| Total finance costs | **3,607** | 2,717 |

## 12. OTHER EXPENSES

The major components include the following:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Commission | **778** | 779 |
| Land rent (Note 36) | **737** | 702 |
| Property tax | **1,198** | 739 |
| Rental of premises (Note 36) | **2,181** | 3,283 |
| Utilities | **474** | 445 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 12. OTHER EXPENSES (CONT'D)

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

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Audit fees paid to: | | |
| – Independent auditors of the company | **176** | 168 |
| – Other independent auditors | **19** | 19 |
| Non-audit fees paid to: | | |
| – Independent auditors of the company | **15** | 15 |

## 13. INCOME TAX

### 13A. Components of tax expense recognised in profit or loss

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| **Current tax expense:** | | |
| Current tax expense | **1,433** | 1,415 |
| (Over) under adjustments in respect of prior years | **(97)** | 52 |
| Subtotal | **1,336** | 1,467 |
| **Deferred tax expense:** | | |
| Deferred tax (income) expense | **(30)** | 126 |
| Under adjustments in respect of prior years | **101** | – |
| Subtotal | **71** | 126 |
| Total income tax expense | **1,407** | 1,593 |

# NOTES TO THE FINANCIAL STATEMENTS



**13. INCOME TAX (CONT'D)**

**13A. Components of tax expense recognised in profit or loss (cont'd)**

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% (2016: 17%) to profit before income tax as a result of the following differences:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Profit before income tax | **9,839** | 9,502 |
| Less: | | |
| – Share of profit from an equity-accounted associate | **(3,277)** | (1,899) |
| – Share of (losses) profits from equity-accounted joint ventures | **191** | (33) |
| | **6,753** | 7,570 |
| Income tax expense at the above rate | **1,148** | 1,287 |
| Effect of different tax rates in different countries | **(15)** | (20) |
| Expenses not deductible for tax purposes | **480** | 515 |
| Tax exemption and rebates | **(210)** | (233) |
| Under adjustments to tax in respect of prior years | **4** | 52 |
| Others | **–** | (8) |
| Total income tax expense | **1,407** | 1,593 |

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

**13B. Deferred tax expense recognised in profit or loss**

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Excess of net book values over tax values of property, plant and equipment | **49** | 150 |
| Provision | **(22)** | 27 |
| Deferred tax on inventories for unrealised profit | **4** | 6 |
| Others | **40** | (57) |
| Total deferred tax expense | **71** | 126 |

**13. INCOME TAX (CONT'D)**

**13C. Deferred tax balance in the statement of financial position**

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Deferred tax liabilities:** | | |
| Excess of net book values over tax values of property, plant and equipment | **903** | 854 |
| Provision | **(111)** | (89) |
| Deferred tax on inventories for unrealised profit | **(212)** | (216) |
| Others | **–** | (40) |
| Total deferred tax liabilities | **580** | 509 |

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

**14. 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 | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Profit, net of tax attributable to owners of the parent | **8,745** | 8,170 |

| | Number of shares | |
|---|---|---|
| | **2017** | **2016** |
| | **'000** | **'000** |
| Weighted average number of equity shares: | | |
| Basic | **430,550** | 429,000 |
| Dilutive share options effect | **–** | 1,262 |
| Diluted | **430,550** | 430,262 |

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.

The dilutive effect derives from performance shares (Note 29B). The diluted amount per share is based on the weighted average number of ordinary shares and dilutive ordinary share equivalents outstanding during each reporting year. The ordinary share equivalents included in these calculations are: (1) the average number of ordinary shares assumed to be outstanding during the reporting year and (2) upon issuance of performance shares which (if any) would have a dilutive effect.

# NOTES TO THE FINANCIAL STATEMENTS



## 15. DIVIDENDS ON EQUITY SHARES

| | Group and company | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| First interim tax exempt (1-tier) dividends paid of 0.5 cent (2016: 0.5 cent) per share | **2,145** | 2,145 |
| Second interim tax exempt (1-tier) dividends payable of 0.5 cent (2016: 0.5 cent) per share | **2,153** | 2,145 |
| Total dividends paid during the year | **4,298** | 4,290 |

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. 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. There are no income tax consequences of the dividends to shareholders.

## 16. PROPERTY, PLANT AND EQUIPMENT

| Group | Leasehold properties $'000 | Plant and equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2016 | 98,987 | 7,475 | 2,729 | 109,191 |
| Additions | 18,609 | 1,708 | 643 | 20,960 |
| Disposals | – | (67) | (78) | (145) |
| Foreign exchange adjustments | (253) | (1) | (2) | (256) |
| At 31 December 2016 | 117,343 | 9,115 | 3,292 | 129,750 |
| Additions | 627 | 2,100 | 410 | 3,137 |
| Disposals | (23) | (747) | (33) | (803) |
| Foreign exchange adjustments | (82) | 3 | (1) | (80) |
| At 31 December 2017 | 117,865 | 10,471 | 3,668 | 132,004 |
| **Accumulated depreciation:** | | | | |
| At 1 January 2016 | 5,801 | 4,084 | 1,435 | 11,320 |
| Depreciation for the year | 2,829 | 933 | 449 | 4,211 |
| Disposals | – | (66) | (68) | (134) |
| Foreign exchange adjustments | (14) | (1) | (3) | (18) |
| At 31 December 2016 | 8,616 | 4,950 | 1,813 | 15,379 |
| Depreciation for the year | 4,294 | 1,109 | 555 | 5,958 |
| Disposals | (8) | (510) | (33) | (551) |
| Foreign exchange adjustments | (7) | – | – | (7) |
| At 31 December 2017 | 12,895 | 5,549 | 2,335 | 20,779 |
| **Net carrying amount:** | | | | |
| At 1 January 2016 | 93,186 | 3,391 | 1,294 | 97,871 |
| At 31 December 2016 | 108,727 | 4,165 | 1,479 | 114,371 |
| At 31 December 2017 | 104,970 | 4,922 | 1,333 | 111,225 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 16. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| Company | Plant and equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2016 | 2 | 334 | 336 |
| Addition | – | – | – |
| Disposals | – | – | – |
| At 31 December 2016 and 31 December 2017 | 2 | 334 | 336 |
| **Accumulated depreciation:** | | | |
| At 1 January 2016 | 2 | 33 | 35 |
| Depreciation for the year | – | 67 | 67 |
| At 31 December 2016 | 2 | 100 | 102 |
| Depreciation for the year | – | 67 | 67 |
| At 31 December 2017 | 2 | 167 | 169 |
| **Net carrying amount:** | | | |
| At 1 January 2016 | – | 301 | 301 |
| At 31 December 2016 | – | 234 | 234 |
| At 31 December 2017 | – | 167 | 167 |

As at the end of the reporting year, the group's leasehold properties with net carrying amount of $100,309,000 (2016: $103,777,000) are mortgaged for bank facilities (Note 30).

Certain motor vehicles are under finance lease agreements (Note 30).

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

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Borrowing costs capitalised included in additions during the year | – | 542 |
| Accumulated borrowing costs capitalised included in the total costs at end of the year | **1,568** | 1,568 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 17. OTHER ASSET, NON-CURRENT

| Group | Land use rights $'000 |
|---|---|
| **Cost:** | |
| At 1 January 2016 | 5,174 |
| Foreign exchange adjustments | (205) |
| At 31 December 2016 | 4,969 |
| Foreign exchange adjustments | (74) |
| At 31 December 2017 | 4,895 |
| **Accumulated amortisation:** | |
| At 1 January 2016 | 224 |
| Amortisation for the year | 135 |
| Foreign exchange adjustments | 13 |
| At 31 December 2016 | 372 |
| Amortisation for the year | 133 |
| Foreign exchange adjustments | (5) |
| At 31 December 2017 | 500 |
| **Net carrying amount:** | |
| At 1 January 2016 | 4,950 |
| At 31 December 2016 | 4,597 |
| At 31 December 2017 | 4,395 |

The land use rights relate to a parcel of land in the People's Republic of China ("PRC") where the group's inventories warehousing facility in PRC resides. The land use rights commenced on 31 December 2013 and expires on 30 December 2050, which is in 37 years time from commencement.

# NOTES TO THE FINANCIAL STATEMENTS



## 18. INVESTMENT PROPERTY

| Group | Freehold land $'000 | Freehold building $'000 | Total $'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2016 | – | – | – |
| Addition | 3,906 | 370 | 4,276 |
| At 31 December 2016 and 31 December 2017 | 3,906 | 370 | 4,276 |
| **Accumulated depreciation:** | | | |
| At 1 January 2016 | – | – | – |
| Depreciation for the year | – | 11 | 11 |
| At 31 December 2016 | – | 11 | 11 |
| Depreciation for the year | – | 18 | 18 |
| At 31 December 2017 | – | 29 | 29 |
| **Net carrying amount:** | | | |
| At 1 January 2016 | – | – | – |
| At 31 December 2016 | 3,906 | 359 | 4,265 |
| At 31 December 2017 | 3,906 | 341 | 4,247 |

| | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|
| Fair value at end of the year for disclosure purposes only | **4,050** | 4,050 |
| Rental income from investment property | **108** | 61 |

The investment property is a two-storey shophouse and is leased out under operating leases. Also see Note 37 on operating lease income commitments.

The investment property is mortgaged as security for the bank facilities (Note 30).

# NOTES TO THE FINANCIAL STATEMENTS



## 18. INVESTMENT PROPERTY (CONT'D)

For fair value measurements 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: | Freehold property at 532 Balestier Road Singapore 329859 |
| Fair value: | $4,050,000 (2016: $4,050,000) |
| Fair value hierarchy: | Level 3 (2016: 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 $15,857 (2016: $15,857) |
| Sensitivity on management's estimates – 10% variation from estimate: | Impact – lower by $405,000; higher by $405,000 |

The fair value of the investment property was measured by Knight Frank Pte Ltd, a firm of independent professional valuers in December 2016 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.

The management is of the opinion that the fair value of the investment property as at 31 December 2017 approximates the fair value determined by the valuer as at 31 December 2016.

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.

## 19. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Unquoted equity shares at cost | **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 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $'000 | $'000 | % | % |
| Hafary Pte Ltd #a<br>Singapore<br>Importer and dealer of building materials | **9,239** | 9,239 | **100** | 100 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 19. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The listing of and information on the subsidiaries are given as below: (cont'd)

| **Name of subsidiaries, country of incorporation, place of operations and principal activities** | **Effective equity held** | |
|---|---|---|
| | **2017** | **2016** |
| | **%** | **%** |
| Held through Hafary Pte Ltd: | | |
| Surface Project Pte. Ltd. #a<br>Singapore<br>Distribution and wholesale of building materials | **70** | 70 |
| Surface Stone Pte. Ltd. #a<br>Singapore<br>Dealer of stones for home furnishing | **90** | 90 |
| Wood Culture Pte. Ltd. #a<br>Singapore<br>Dealer of wood for home furnishing | **100** | 100 |
| Hafary Centre Pte. Ltd. #a<br>Singapore<br>Investment holding | **100** | 100 |
| Hafary Vietnam Pte. Ltd. #a<br>Singapore<br>Investment holding | **100** | 100 |
| Hafary International Pte. Ltd. #a<br>Singapore<br>Importing and distribution of building materials | **100** | 100 |
| Hafary Trademarks Pte. Ltd. #a<br>Singapore<br>Intellectual property holding and management | **100** | 100 |
| Marble Trends Pte. Ltd. #a<br>Singapore<br>Dealer of stones for home furnishing | **100** | 100 |
| World Furnishing Hub Pte. Ltd. #a #c #d<br>Singapore<br>Investment holding | **46** | 46 |
| Hafary Balestier Showroom Pte. Ltd. #a<br>Singapore<br>Investment holding | **51** | 51 |

# NOTES TO THE FINANCIAL STATEMENTS



## 19. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The listing of and information on the subsidiaries are given as below: (cont'd)

| Name of subsidiaries, country of incorporation, place of operations and principal activities | Effective equity held | |
|---|---|---|
| | **2017** | **2016** |
| | % | % |
| Held through Hafary Pte Ltd: | | |
| Gres Universal Pte. Ltd. #a<br>Singapore<br>Distribution and wholesale of building materials | **56** | 56 |
| Hafary Building Materials Pte. Ltd. #a<br>Singapore (Incorporated on 23 August 2017)<br>Investment holding | **100** | – |
| Held through Hafary International Pte. Ltd.: | | |
| Foshan Hafary Trading Co., Limited #b<br>People's Republic of China<br>Importing, exporting and distribution of building materials | **100** | 100 |

#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.

## 20. INVESTMENT IN AN ASSOCIATE

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Unquoted equity shares at cost | **2,061** | 2,061 |
| Goodwill at cost | **758** | 758 |
| Share of post-acquisition profit, net of dividends received | **6,965** | 4,269 |
| Carrying amount | **9,784** | 7,088 |
| | | |
| Movements in carrying amount: | | |
| At beginning of the year | **7,088** | 5,384 |
| Share of profit for the year | **3,277** | 1,899 |
| Dividends | **(209)** | (195) |
| Foreign exchange adjustments | **(372)** | – |
| At end of the year | **9,784** | 7,088 |

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

# NOTES TO THE FINANCIAL STATEMENTS



## 20. INVESTMENT IN AN ASSOCIATE (CONT'D)

The details of the associate are given as below:

| Name of associate, country of incorporation, place of operation and principal activities | Effective equity held | |
|---|---|---|
| | **2017** | **2016** |
| | **%** | **%** |
| Viet Ceramics International Joint Stock Company ("VCI") #a<br>Socialist Republic of Vietnam<br>Importer and dealer of building materials | **49** | 49 |

#a Audited by RSM DTL Auditing Company, 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 | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Dividends received from the associate | **209** | 195 |
| Revenue | **43,077** | 27,347 |
| Profit for the year | **6,688** | 3,875 |
| Non-current assets | **2,823** | 2,564 |
| Current assets | **24,158** | 19,602 |
| Non-current liabilities | **–** | (381) |
| Current liabilities | **(8,568)** | (8,409) |
| Reconciliation: | | |
| Net assets of the associate | **18,413** | 13,376 |
| Proportion of the group's interest in the associate | **9,022** | 6,554 |
| Goodwill on acquisition | **758** | 758 |
| Intangible assets on acquisition | **90** | 90 |
| Foreign exchange adjustments | **(86)** | (314) |
| | **9,784** | 7,088 |

# NOTES TO THE FINANCIAL STATEMENTS



## 21. INVESTMENTS IN JOINT VENTURES

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Unquoted equity shares at cost | **3,190** | 100 |
| Share of post-acquisition (losses) profits, net of dividends | **(84)** | 172 |
| Carrying amount | **3,106** | 272 |
| | | |
| Movements in carrying amount: | | |
| At beginning of the year | **272** | 318 |
| Additions | **3,090** | – |
| Share of (losses) profits for the year | **(191)** | 33 |
| Dividends | **(35)** | (79) |
| Foreign exchange adjustments | **(30)** | – |
| At end of the year | **3,106** | 272 |
| | | |
| Analysis of amounts denominated in non-functional currency: | | |
| Chinese Renminbi | **2,969** | – |

The details of the joint ventures are given as below:

| Name of joint ventures, country of incorporation, place of operations and principal activities | Effective equity held | |
|---|---|---|
| | **2017** | **2016** |
| | % | % |
| Melmer Stoneworks Pte. Ltd. #a (Note 21A)<br>Singapore<br>Cutting, shaping and finishing of stone | **50** | 50 |
| Guangdong ITA Element Building Materials Co., Limited #b (Note 21B)<br>People's Republic of China (Incorporated on 27 June 2017)<br>Production and distribution of tiles | **50** | – |

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

#b The unaudited management financial statements at 31 December 2017 of joint venture have been used for equity accounting purpose as the joint venture is not material.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

**21. INVESTMENT IN JOINT VENTURES (CONT'D)**

21A. The group has 50% (2016: 50%) interest in the ownership and voting rights in the joint venture that is held through a subsidiary. The joint venture is incorporated in Singapore and is a strategic joint venture in the business. The group jointly controls the venture with other partner under the contractual agreement and requires unanimous consent for all major decisions over the relevant activities.

21B. The group has 50% (2016: Nil) interest in the ownership in the joint venture that is held through a subsidiary. The joint venture is incorporated in People's Republic of China and is a strategic joint venture in the business. The group jointly controls the venture with other partners under the contractual agreement and requires two thirds of board of directors' consent for all major decisions over the relevant activities.

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 | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Dividends received from the joint ventures | **35** | 79 |
| Revenue | **3,667** | 4,328 |
| (Loss) profit for the year | **(382)** | 66 |
| Non-current assets | **772** | 271 |
| Current assets | **7,078** | 1,423 |
| Non-current liabilities | **(5)** | (7) |
| Current liabilities | **(1,634)** | (1,143) |
| Reconciliation: | | |
| Net assets of the joint ventures | **6,211** | 544 |
| Proportion of the reporting entity's interest in the joint ventures | **3,106** | 272 |

**22. OTHER FINANCIAL ASSETS, NON-CURRENT**

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Quoted equity investment at fair value through profit or loss (Note 22A) | **586** | 488 | **586** | 488 |
| Unquoted investment at cost (Note 22B) | **2,050** | 2,081 | **–** | – |
| | **2,636** | 2,569 | **586** | 488 |

There is no investment pledged as security for liabilities.

# NOTES TO THE FINANCIAL STATEMENTS



## 22. OTHER FINANCIAL ASSETS, NON-CURRENT (CONT'D)

### 22A. Quoted equity investment at fair value through profit or loss

| | Group and company | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Movements during the year: | | |
| Fair value at beginning of the year | **488** | 793 |
| Increase (decrease) in fair value through profit or loss under other gains (losses) (Note 8) | **98** | (305) |
| Fair value at end of the year (Level 1) | **586** | 488 |

The quoted equity investment is in the retail and distribution industry in Singapore and is 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 38H.

### 22B. Unquoted investment at cost

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Unquoted equity shares at cost | **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 | **2,081** | 2,178 |
| Foreign exchange adjustments | **(31)** | (97) |
| 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 | Effective equity held | |
|---|---|---|
| | **2017** | **2016** |
| | % | % |
| Held through Foshan Hafary Trading Co., Limited | | |
| Foshan Griffiths Building Material Co., Ltd<br>People's Republic of China<br>Manufacturing and distribution of tiles | 10 | 10 |

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

It is not possible to reliably measure the fair value of the investee as it is not listed. Therefore, the investment is carried at cost less accumulated allowance for impairment.

# NOTES TO THE FINANCIAL STATEMENTS



## 23. INVENTORIES

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Goods held for resale | **51,198** | 50,876 |
| Construction contracts in progress | **52** | – |
| | **51,250** | 50,876 |
| Inventories are stated after allowance as follow: | | |
| Balance at beginning of the year | **2,946** | 2,474 |
| Charged to profit or loss included in impairment losses (Note 10) | **1,499** | 472 |
| Balance at end of the year | **4,445** | 2,946 |

There are no inventories pledged as security for liabilities.

## 24. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $'000 | $'000 | $'000 | $'000 |
| **Trade receivables:** | | | | |
| Outside parties | **29,528** | 29,418 | **2** | 1 |
| Less: Allowance for impairment | **(1,155)** | (1,385) | – | – |
| Subsidiaries (Note 3) | – | – | **1,176** | 3,532 |
| Joint venture (Note 3) | **551** | 162 | – | – |
| Associate (Note 3) | **2** | 15 | – | – |
| Other related parties (Note 3) | **132** | 102 | – | – |
| Due from customers on contracts (Note 24A) | **244** | 133 | – | – |
| Retention receivables on contracts | **2,343** | 1,662 | – | – |
| Subtotal | **31,645** | 30,107 | **1,178** | 3,533 |
| **Other receivables:** | | | | |
| Subsidiaries (Note 3) | – | – | **28,238** | 23,331 |
| Joint venture (Note 3) | **536** | 656 | – | – |
| Associate (Note 3) | – | 1,446 | – | – |
| Refundable deposits | **428** | 1,013 | – | – |
| Others | **368** | 393 | – | – |
| Subtotal | **1,332** | 3,508 | **28,238** | 23,331 |
| Total trade and other receivables | **32,977** | 33,615 | **29,416** | 26,864 |
| Movements in above allowance: | | | | |
| Balance at beginning of the year | **1,385** | 1,155 | – | – |
| Charged to profit or loss included in impairment losses (Note 10) | **187** | 583 | – | – |
| Reversed to profit or loss included in impairment losses (Note 10) | – | (16) | – | – |
| Bad debts written-off | **(417)** | (337) | – | – |
| Balance at end of the year | **1,155** | 1,385 | – | – |

# NOTES TO THE FINANCIAL STATEMENTS



## 24. TRADE AND OTHER RECEIVABLES (CONT'D)

### 24A. Due from customers on contracts

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Aggregate amount of costs incurred and recognised profits (less recognised losses) to date on uncompleted contracts | **1,249** | 2,680 |
| Less: Progress payments received and receivable to-date | **(1,005)** | (2,547) |
| Net amount due from contract customers (Note 24) | **244** | 133 |

## 25. OTHER FINANCIAL ASSET, CURRENT

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'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. The financial asset was redeemed during the reporting year.

For the reporting year ended 31 December 2016, the financial asset bore an effective interest rate of 1.96% per annum.

## 26. OTHER ASSETS, CURRENT

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Advance payments to suppliers | **4,516** | 3,878 | **–** | – |
| Prepayments | **162** | 122 | **4** | 4 |
| Deposits to secure services | **217** | 250 | **–** | – |
| Lease incentive | **4** | – | **–** | – |
| Total other assets | **4,899** | 4,250 | **4** | 4 |

## 27. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Not restricted in use | **5,996** | 4,438 | **21** | 30 |

The interest earning balances are not significant.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 27. CASH AND CASH EQUIVALENTS (CONT'D)

### 27A. Non-cash transactions

During the reporting year, there were acquisitions of property, plant and equipment of $223,000 (2016: $1,017,000) acquired by means of finance lease liabilities.

### 27B. Reconciliation of purchase of property, plant and equipment arising from investing activities

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Purchase of property, plant and equipment (Note 16) | **(3,137)** | (20,960) |
| Acquired by means of finance lease liabilities (Note 27A) | **223** | 1,017 |
| Borrowing costs capitalised (Note 16) | – | 542 |
| Decrease in other payables for purchase of non-current assets | **(892)** | (9,375) |
| | **(3,806)** | (28,776) |

### 27C. Reconciliation of liabilities arising from financing activities

| Group | At beginning of the year $'000 | Cash flows $'000 | Non-cash changes $'000 | At end of the year $'000 |
|---|---|---|---|---|
| **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 |
| **2016** | | | | |
| Long-term borrowings | 65,545 | 23,835 | – | 89,380 |
| Short-term borrowings | 57,482 | (4,350) | – | 53,132 |
| Finance lease liabilities | 615 | (447) | 1,017# | 1,185 |
| Total liabilities from financing activities | 123,642 | 19,038 | 1,017 | 143,697 |

# Acquisition of plant and equipment.

# NOTES TO THE FINANCIAL STATEMENTS



## 28. SHARE CAPITAL

| | Number of shares issued '000 | Share capital $'000 |
|---|---|---|
| **Ordinary shares of no par value:** | | |
| Balance at 1 January 2016 and 31 December 2016 | 429,000 | 26,634 |
| Issuance of new ordinary shares under Hafary Performance Share Plan (Note 29B) | 1,550 | 296 |
| Balance at 31 December 2017 | 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 | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Net debt: | | |
| All current and non-current borrowings including finance leases | **144,953** | 143,697 |
| Less: Cash and cash equivalents | **(5,996)** | (4,438) |
| | **138,957** | 139,259 |
| Adjusted capital: | | |
| Total equity | **61,078** | 57,727 |
| Debt-to-adjusted capital ratio | **227.5%** | 241.2% |

There was a favourable change with improved retained earnings.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 29. OTHER RESERVES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| Foreign currency translation reserve (Note 29A) | **(549)** | 103 | – | – |
| Equity-settled share-based compensation reserve (Note 29B) | – | 234 | – | 234 |
| | **(549)** | 337 | – | 234 |

The other reserves are not available for cash dividends unless realised.

### 29A. Foreign currency translation reserve

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| At beginning of the year | **103** | 710 |
| Exchange differences on translating foreign operations | **(652)** | (607) |
| At end of the year | **(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.

### 29B. Equity-settled share-based compensation reserve

| | Group and Company | |
|---|---|---|
| | 2017 $'000 | 2016 $'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 28) | **(296)** | – |
| At end of the year | – | 234 |

# NOTES TO THE FINANCIAL STATEMENTS



## 29. OTHER RESERVES (CONT'D)

### 29B. Equity-settled share-based compensation reserve (cont'd)

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, and is administered by the Plan Committee, comprising the Remuneration Committee and the CEO authorised and appointed by the Board.

Name of members of the Plan Committee:

Mr Chow Wen Kwan Marcus (Chairman)
Mr Ong Beng Chye
Mr Terrance Tan Kong Hwa
Mr 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, the number of performance shares granted, vested and cancelled under the Hafary PSP are as follows:

| | **Number of Hafary performance shares** | | | | |
|---|---|---|---|---|---|
| **Grant date** | **As at 1 January 2017** | **Granted during the year** | **Vested during the year** | **Cancelled / lapsed during the year** | **As at 31 December 2017** |
| 1 August 2014 | 1,300,000 | – | (1,300,000) | – | – |
| 1 March 2016 | 250,000 | – | (250,000) | – | – |
| | 1,550,000 | – | (1,550,000) | – | – |

On 3 July 2017, the company issued and alloted 1,550,000 new ordinary shares in the issued and paid-up capital of the company to selected eligible employees of the company pursuant to the vesting of awards 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 30. OTHER FINANCIAL LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $'000 | $'000 | $'000 | $'000 |
| **Non-current:** | | | | |
| **With floating interest rates:** | | | | |
| Bank loan F (secured) (Note 30C) | **13,003** | 13,817 | – | – |
| Bank loan H (secured) (Note 30E) | **47,502** | 47,661 | – | – |
| Bank loan I (secured) (Note 30F) | **12,192** | 13,127 | – | – |
| Bank loan J (secured) (Note 30F) | **10,966** | 11,814 | – | – |
| Bank loan K (secured) (Note 30G) | **2,833** | 2,961 | – | – |
| Subtotal | **86,496** | 89,380 | – | – |
| **With fixed interest rates:** | | | | |
| Finance lease liabilities (Note 30I) | **402** | 659 | **54** | 88 |
| Non-current, total | **86,898** | 90,039 | **54** | 88 |
| **Current:** | | | | |
| **With floating interest rates:** | | | | |
| Bank loan A (secured) (Note 30A) | **7,400** | 3,500 | – | – |
| Bank loan B (secured) (Note 30A) | **8,000** | 8,000 | – | – |
| Bank loan C (secured) (Note 30A) | **4,000** | 5,000 | – | – |
| Bank loan D (unsecured) (Note 30B) | **500** | – | – | – |
| Bank loan E (unsecured) (Note 30B) | **1,000** | – | – | – |
| Bank loan F (secured) (Note 30C) | **817** | 845 | – | – |
| Bank loan G (secured) (Note 30D) | **8,500** | 9,250 | – | – |
| Bank loan H (secured) (Note 30E) | **1,500** | 875 | – | – |
| Bank loan I (secured) (Note 30F) | **938** | 947 | – | – |
| Bank loan J (secured) (Note 30F) | **846** | 852 | – | – |
| Bank loan K (secured) (Note 30G) | **129** | 130 | – | – |
| Trust receipts and bills payable (Note 30H) | **24,017** | 23,733 | – | – |
| Subtotal | **57,647** | 53,132 | – | – |
| **With fixed interest rates:** | | | | |
| Finance lease liabilities (Note 30I) | **408** | 526 | **34** | 33 |
| Current, total | **58,055** | 53,658 | **34** | 33 |
| Total | **144,953** | 143,697 | **88** | 121 |
| **The non-current portion is repayable as follows:** | | | | |
| Due within 2 to 5 years | **23,293** | 23,408 | **54** | 88 |
| After 5 years | **63,605** | 66,631 | – | – |
| Total non-current portion | **86,898** | 90,039 | **54** | 88 |

# NOTES TO THE FINANCIAL STATEMENTS



## 30. OTHER FINANCIAL LIABILITIES (CONT'D)

The ranges of floating interest rates per annum paid were as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| Bank loan A (secured) | **2.47% to 2.80%** | 2.37% to 3.02% |
| Bank loan B (secured) | **2.47% to 2.80%** | 2.37% to 2.92% |
| Bank loan C (secured) | **2.38% to 2.68%** | 2.29% to 3.06% |
| Bank loan D (unsecured) | **2.62% to 2.90%** | 2.20% to 3.05% |
| Bank loan E (unsecured) | **2.90%** | 1.92% to 3.00% |
| Bank loan F (secured) | **2.00%** | 2.00% to 3.47% |
| Bank loan G (secured) | **2.47% to 2.80%** | 2.37% to 2.90% |
| Bank loan H (secured) | **2.14%** | 2.10% to 2.14% |
| Bank loan I (secured) | **2.18% to 2.71%** | 2.18% |
| Bank loan J (secured) | **2.18% to 2.71%** | 2.18% |
| Bank loan K (secured) | **2.02% to 2.36%** | 2.02% to 2.15% |
| Trust receipts and bills payable | **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:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Rates per annum | **1.10% to 2.28%** | 1.10% to 2.28% | **2.28%** | 2.28% |
| Average lease term in years | **1 to 3** | 1 to 4 | **3** | 4 |

## 30A. Bank loans A, B and C (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 16).
(iii) Corporate guarantee from the company.
(iv) Need to comply with certain financial covenants.

## 30B. Bank loans D and E (unsecured)

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.

## 30. OTHER FINANCIAL LIABILITIES (CONT'D)

### 30C. 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 16).
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

### 30D. 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 16).
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

### 30E. 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 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.

### 30F. 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 16).
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

### 30G. 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 18).
(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.

# NOTES TO THE FINANCIAL STATEMENTS



## 30. OTHER FINANCIAL LIABILITIES (CONT'D)

### 30H. Trust receipts and bills payable

These are repayable within 150 to 180 days (2016: 150 to 180 days) and are guaranteed by the company.

### 30I. Finance lease liabilities

| Group: 2017 | Minimum payments $'000 | Finance charges $'000 | Present value $'000 |
|---|---|---|---|
| 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 book values of motor vehicles under finance lease liabilities | | | **1,517** |
| **2016** | | | |
| 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 book values of motor vehicles under finance lease liabilities | | | 1,600 |

| Company: 2017 | Minimum payments $'000 | Finance charges $'000 | Present value $'000 |
|---|---|---|---|
| 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 book value of motor vehicle under finance lease liability | | | **167** |
| **2016** | | | |
| 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 book value 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 31. PROVISION

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Provision for rebates | **653** | 523 |
| | | |
| Movements in above provision: | | |
| Balance at beginning of the year | **523** | 525 |
| Additions | **653** | 523 |
| Used | **(523)** | (525) |
| Balance at end of the year | **653** | 523 |

The group does give rebates to trade receivable customers upon settlement of balances within average credit period granted i.e. 60 days (2016: 60 days).

## 32. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| **Trade payables:** | | | | |
| Outside parties and accrued liabilities | **9,909** | 13,547 | **705** | 712 |
| Joint venture (Note 3) | **282** | 328 | **–** | – |
| Other related parties (Note 3) | **2,434** | 570 | **–** | – |
| Subtotal | **12,625** | 14,445 | **705** | 712 |
| | | | | |
| **Other payables:** | | | | |
| Subsidiaries (Note 3) | **–** | – | **9,400** | 9,400 |
| Joint venture (Note 3) | **42** | – | **–** | – |
| Director (Note 3) | **2,613** | 2,176 | **–** | – |
| Shareholder (Note 3) | **2,718** | 2,718 | **–** | – |
| Outside parties | **1,117** | 1,113 | **–** | – |
| For purchase of non-current assets | **873** | 8 | **–** | – |
| Retention payable for construction of a leasehold property | **–** | 1,700 | **–** | – |
| Subtotal | **7,363** | 7,715 | **9,400** | 9,400 |
| Total trade and other payables | **19,988** | 22,160 | **10,105** | 10,112 |

## 33. OTHER LIABILITIES

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Advance payments from customers | **1,423** | 1,005 |
| Deferred rental income | **17** | 17 |
| Lease incentives | **5** | – |
| Total other liabilities | **1,445** | 1,022 |

# NOTES TO THE FINANCIAL STATEMENTS



## 34. DERIVATIVE FINANCIAL (LIABILITIES) ASSETS

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Forward foreign exchange contracts | **(229)** | 292 |
| | | |
| The movements during the year were as follows: | | |
| Balance at beginning of the year | **292** | 44 |
| (Loss) gain in profit or loss under other (losses) gains (Note 8) | **(521)** | 248 |
| Balance at end of the year | **(229)** | 292 |

### 34A. 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 Dollars | | Reference currency – Euro | | Total |
|---|---|---|---|---|---|
| Maturity | Principal | Fair value | Principal | Fair value | Fair value |
| 2017: | US$'000 | $'000 | €'000 | $'000 | $'000 |
| 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) |
| | | | | | |
| 2016: | | | | | |
| 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 35. 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 | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Commitments to construct leasehold property | – | 744 |
| Commitments to purchase property, plant and equipment | **68** | 419 |

## 36. 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 | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Not later than one year | **2,141** | 2,312 |
| Later than one year and not later than five years | **4,429** | 3,978 |
| Later than five years | **13,811** | 16,483 |
| | | |
| Rental expenses for the year (Note 12) | **2,918** | 3,985 |

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.

## 37. 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 | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Not later than one year | **2,143** | 1,326 |
| Later than one year and not later than five years | **2,324** | 1,270 |
| Later than five years | – | 15 |
| | | |
| Rental income for the year (Note 5) | **2,284** | 2,491 |

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



## 38. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

### 38A. 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 | | Company | |
|---|---|---|---|---|
| | **2017** **$'000** | **2016** **$'000** | **2017** **$'000** | **2016** **$'000** |
| **Financial assets:** | | | | |
| Cash and cash equivalents | **5,996** | 4,438 | **21** | 30 |
| Loans and receivables | **32,977** | 33,615 | **29,416** | 26,864 |
| Derivatives financial instruments at fair value | – | 292 | – | – |
| Financial assets at fair value through profit or loss | **586** | 488 | **586** | 488 |
| Financial assets at cost less allowance for impairment | **2,050** | 2,081 | – | – |
| Available-for-sale financial assets | – | 656 | – | – |
| | **41,609** | 41,570 | **30,023** | 27,382 |
| **Financial liabilities:** | | | | |
| Other financial liabilities measured at amortised cost | **144,953** | 143,697 | **88** | 121 |
| Trade and other payables measured at amortised cost | **19,988** | 22,160 | **10,105** | 10,112 |
| Derivatives financial instruments at fair value | **229** | – | – | – |
| | **165,170** | 165,857 | **10,193** | 10,233 |

Further quantitative disclosures are included throughout these financial statements.

### 38B. 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 financial controller 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

**38. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)**

**38C. 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.

**38D. 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 consist principally of cash balances with banks, cash equivalents, receivables and certain other financial assets. The maximum exposure to credit risk is: the total of the fair value of the financial assets; the maximum amount the entity could have to pay if the guarantee is called on; and the full amount of any loan payable commitment 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 credit risk on receivables, an ongoing credit evaluation is performed on the financial condition of the debtors and a loss from impairment is recognised in profit or loss. The exposure to credit risk with customers is controlled by setting limits on the exposure to individual customers and these are disseminated to the relevant persons concerned and compliance is monitored by management. There is no significant concentration of credit risk on receivables, as the exposure is spread over a large number of counter-parties and customers.

Note 27 discloses the maturity of the cash and cash equivalents balances.

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 (2016: 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 | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Trade receivables:** | | |
| 1 to 30 days | **3,218** | 3,971 |
| 31 to 60 days | **1,838** | 1,651 |
| 61 to 90 days | **1,402** | 866 |
| Over 90 days | **7,049** | 6,226 |
| Total | **13,507** | 12,714 |

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Trade receivables:** | | |
| Over 90 days | **1,155** | 1,385 |

The allowance which is disclosed in the note on trade receivables is based on individual accounts totalling $1,155,000 (2016: $1,385,000) of the group that are determined to be impaired at the end of the reporting year. These are not secured.

Other receivables are normally with no fixed terms and therefore there is no maturity.

# NOTES TO THE FINANCIAL STATEMENTS



**38. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)**

**38E. Liquidity risk – financial liabilities maturity analysis**

The following table analyses the non-derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

| Non-derivative financial liabilities: Group | Less than 1 year $'000 | 2 to 5 years $'000 | More than 5 years $'000 | Total $'000 |
|---|---|---|---|---|
| **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** |
| **2016:** | | | | |
| 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 |

| Company | Less than 1 year $'000 | 2 to 5 years $'000 | Total $'000 |
|---|---|---|---|
| **2017:** | | | |
| Gross finance lease obligations | **37** | **56** | **93** |
| Trade and other payables | **10,105** | **–** | **10,105** |
| | **10,142** | **56** | **10,198** |
| **2016:** | | | |
| 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.

## 38. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 38E. Liquidity risk – financial liabilities maturity analysis (cont'd)

The following table analyses the derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

| **Derivative financial liabilities:** | **Less than 1 year** | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Group** | | |
| Forward currency forward contracts | **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.

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** |
|---|---|---|---|---|
| **2017:** | | | | |
| Financial guarantee contracts in favour of subsidiaries (Note 3) | 56,850 | 17,113 | 44,788 | 118,751 |
| **2016:** | | | | |
| 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 (2016: 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.

Bank facilities:

| | **Group** | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Undrawn borrowing facilities | **43,417** | 36,856 |
| Unused bank guarantees | **862** | 1,025 |

The undrawn borrowing facilities are available for operating activities and to settle other commitments. Borrowing facilities are maintained to ensure funds are available for the operations. A schedule showing the maturity of financial liabilities and unused bank facilities is provided regularly to management to assist in monitoring the liquidity risk.

## 38. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 38F. 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 | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| **Financial liabilities:** | | | | |
| Fixed rates | **810** | 1,185 | **88** | 121 |
| Floating rates | **144,143** | 142,512 | **–** | – |
| | **144,953** | 143,697 | **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 | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'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 by: | **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).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

**38. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)**

**38G. Foreign currency risk**

Analysis of amounts of financial assets and financial liabilities denominated in non-functional currencies at end of the reporting year is as follows:

| Group: 2017: | United States Dollars $'000 | Euro $'000 | Vietnamese Dong $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Cash and bank balances | **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)** |

| 2016: | United States Dollars $'000 | Euro $'000 | Vietnamese Dong $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Cash and bank balances | – | – | 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 Dollars and Euro currency risk due to the large value of purchases denominated in these currencies and the group sells its goods in Singapore dollars. In this respect, forward currency contracts are entered into for the purpose of hedging the purchases in United States Dollars and Euro. Note 34A disclosed the forward currency contracts in place at the end of the reporting year.

## 38. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 38G. Foreign currency risk (cont'd)

**Sensitivity analysis:**

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'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 Dollars | **1,254** | 1,044 |
| Euro | **906** | 716 |
| Vietnamese Dong | **(61)** | (43) |

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.

### 38H. 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.

## 39. CHANGES AND ADOPTION OF FINANCIAL REPORTING STANDARDS

For the current reporting year new or revised Singapore Financial Reporting Standards and the related Interpretations to FRS ("INT FRS") were issued by the Singapore Accounting Standards Council. Those applicable to the reporting entity are listed below. These applicable new or revised standards did not require material modification of the measurement methods or the presentation in the financial statements.

| FRS No. | Title |
|---|---|
| FRS 7 | Amendments to FRS 7: Disclosure Initiative |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 40. NEW OR AMENDED STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

For the future reporting years new or revised Singapore Financial Reporting Standards (International) and the related Interpretations to SFRS(I) ("SFRS(I) INT") were issued by the Singapore Accounting Standards Council and these will only be effective for future reporting years. Those applicable to the reporting entity for future reporting years are listed below.

| SFRS(I) No. | Title | Effective date for periods beginning on or after |
|---|---|---|
| SFRS(I) 1-28 | Amendments to, Investments in Associates and Joint Venture – Sale or Contribution of Assets | 1 January 2018 |
| SFRS(I) 1-40 | Amendments to, Transfer of Investment Property | 1 January 2018 |
| SFRS(I) 1 | First-time Adoption of Singapore Financial Reporting Standards (International) | 1 January 2018 |
| SFRS(I) 2 | Amendments to, Classification and Measurement of Share-based Payment Transactions | 1 January 2018 |
| SFRS(I) 9 | Financial Instruments | 1 January 2018 |
| SFRS(I) 15 | Revenue from Contracts with Customers Amendments to, Clarifications to SFRS(I) 15 Revenue from Contracts with Customers | 1 January 2018 |
| SFRS(I) 16 | Leases and Leases – Illustrative Examples & Amendments to Guidance on Other Standards | 1 January 2019 |
| SFRS(I) INT 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| SFRS(I) INT 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |

SFRS(I) 16 Leases

SFRS(I) 16 Leases effective for annual periods beginning on or after 1 January 2019 replaces SFRS (I) 1-17 and its interpretations. Almost all leases will be brought onto lessees' statements of financial position under a single model (except leases of less than 12 months and leases of low value assets). Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The management anticipates that SFRS (I) 16 will be adopted in the financial statements when it becomes mandatory and that the application of the new standard will have a significant effect on amounts reported in respect of the leases. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New accounting standards from 1 January 2018

Companies listed on the Singapore Exchange ("SGX") currently reporting under SFRSs are required to comply with new Singapore Financial Reporting Standards (International) (SFRS(I)s (issued by the Singapore Accounting Standards Council) that would be equivalent to the International Financial Reporting Standards ("IFRS") (issued by the International Accounting Standards Board (IASB)) for reporting years beginning on after 1 January 2018. The new framework is referred to as SFRS(I)s. Non-listed companies may elect to voluntarily apply SFRS(I)s. SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International) will be adopted in the financial statements when it becomes mandatory. Based on the current accounting treatment of the account balances management does not anticipate that the application of SFRS(I) 1 will have a material impact on the financial position and/or financial performance of the entity.

# STATISTICS OF SHAREHOLDINGS

AS AT 8 MARCH 2018

| | | |
|---|---|---|
| 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 | 22 | 3.08 | 12,200 | –* |
| 1,001 – 10,000 | 183 | 25.59 | 1,274,010 | 0.30 |
| 10,001 – 1,000,000 | 496 | 69.37 | 33,993,250 | 7.89 |
| 1,000,001 AND ABOVE | 14 | 1.96 | 395,270,540 | 91.81 |
| TOTAL | 715 | 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[6] | 16.15 |
| CHING CHIAT KWONG | – | – | 32,739,730[7] | 7.60 |

**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, 412,200 ordinary shares are held in name of OCBC Securities Private Limited and 8,165,430 ordinary shares are held in the name of Raffles Nominees (Pte) Limited.

# STATISTICS OF SHAREHOLDINGS

AS AT 8 MARCH 2018

**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 | 21,378,800 | 4.97 |
| 6 | CITIBANK NOMINEES SINGAPORE PTE LTD | 18,651,600 | 4.33 |
| 7 | LOW BEE LAN AUDREY | 16,536,707 | 3.84 |
| 8 | RAFFLES NOMINEES (PTE) LIMITED | 9,022,850 | 2.10 |
| 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 | 1,418,900 | 0.33 |
| 13 | LOW EE HWEE | 1,277,200 | 0.30 |
| 14 | NOVA FURNISHING HOLDINGS PTE LTD | 1,249,300 | 0.29 |
| 15 | GOH KEE CHOO (WU QIZHU) | 995,700 | 0.23 |
| 16 | CHUA CHEE WUI | 755,000 | 0.18 |
| 17 | AGUS SUTJIAWAN | 735,000 | 0.17 |
| 18 | PHILLIP SECURITIES PTE LTD | 710,800 | 0.17 |
| 19 | TAY ENG KIAT JACKSON (ZHENG YINGJIE) | 650,000 | 0.15 |
| 20 | EVANGELIN YEW LEET LING (EVANGELIN YAO LILING) | 551,400 | 0.13 |
| | **TOTAL** | **399,668,440** | **92.84** |

**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 Friday, 13 April 2018 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 2017 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 2017 (FY2016: NIL). **(Resolution 2)**

3. To re-elect the following Directors of the Company retiring pursuant to Article 104 of the Constitution of the Company:

   Mr Ong Beng Chye **(Resolution 3)**
   Datuk Edward Lee Ming Foo **(Resolution 4)**

   *Mr Ong Beng Chye will, upon re-election as Director of the Company, remain as Chairman of the Board and Audit Committee and a member of the Nominating Committee and Remuneration Committee and will be considered independent.*

4. To re-elect Mr Yong Teak Jan @ Yong Teck Jan as Director of the Company pursuant to Article 108 of the Constitution of the Company. **(Resolution 5)**

5. To approve the payment of Directors' Fees of S$231,000 for the financial year ended 31 December 2017 (FY2016: 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 the Singapore Exchange Securities Trading Limited ("**the 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

   (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

# NOTICE OF ANNUAL GENERAL MEETING

(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)**

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)**

# NOTICE OF ANNUAL GENERAL MEETING

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, 28 March 2018

**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.

# NOTICE OF ANNUAL GENERAL MEETING

(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.

**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.

This page has been intentionally left blank

**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 Friday, 13 April 2018 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 2017 | | |
| 2 | Payment of proposed final dividend | | |
| 3 | Re-election of Mr Ong Beng Chye as Director | | |
| 4 | Re-election of Datuk Edward Lee Ming Foo as Director | | |
| 5 | Re-election of Mr Yong Teak Jan @ Yong Teck Jan as Director | | |
| 6 | Approval of Directors' Fees amounting to S$231,000 for the financial year ended 31 December 2017 | | |
| 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 ________________ 2018

| **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 28 March 2018.

**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.

Fold here

Please
affix
stamp

**HAFARY HOLDINGS LIMITED**

105 Eunos Avenue 3

Hafary Centre

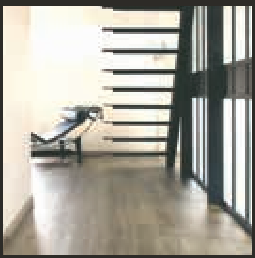
Singapore 409836

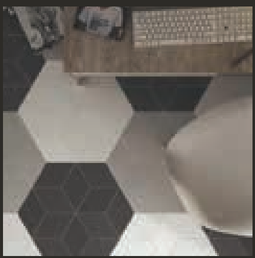
Fold here

This page has been intentionally left blank

This page has been intentionally left blank

# OUR SHOWROOMS





## HAFARY GALLERY

105 Eunos Avenue 3 Hafary Centre Singapore 409836
Tel: 6250 1368 Fax: 6383 1536
Email: eunosshowroom@hafary.com.sg
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
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
Mon to Sat: 10.00am – 7.00pm
Sun and PH: 10.00am – 5.00pm

合發利控股有限公司
HAFARY HOLDINGS LIMITED
(Company Registration No. 200918637C)
105 Eunos Avenue 3 Hafary Centre
Singapore 409836