



HAFARY HOLDINGS LIMITED

合發利控股有限公司

Company Registration No. 200918637C

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

Unaudited Financial Statements and Dividend Announcement
For the Second Quarter ("2Q2019") and Half Year ("HY2019")
Ended 30 June 2019

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HAFARY HOLDINGS LIMITED

For the Financial Period Ended 30 June 2019

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

	Group			Group		
	Unaudited 2Q2019 (3 months) S\$'000	Unaudited 2Q2018 (3 months) S\$'000	Increase/ (Decrease) %	Unaudited HY2019 (6 months) S\$'000	Unaudited HY2018 (6 months) S\$'000	Increase/ (Decrease) %
	Revenue	26,547	30,833	(13.9)	51,472	56,216
Interest Income	25	15	66.7	40	16	150.0
Other Gains	114	307	(62.9)	96	445	(78.4)
Changes In Inventories Of Goods Held For Resale	(448)	2,355	N.M.	(1,193)	3,849	N.M.
Purchases And Related Costs	(14,599)	(19,628)	(25.6)	(28,136)	(35,907)	(21.6)
Employee Benefits Expense	(4,948)	(4,838)	2.3	(9,756)	(9,427)	3.5
Amortisation And Depreciation Expense	(1,908)	(1,489)	28.1	(3,806)	(3,022)	25.9
Impairment Losses	(180)	(328)	(45.1)	(432)	(797)	(45.8)
Other Losses	(190)	(207)	(8.2)	(2)	(327)	(99.4)
Finance Costs	(1,180)	(1,026)	15.0	(2,282)	(1,998)	14.2
Other Expenses	(2,006)	(2,515)	(20.2)	(3,964)	(5,114)	(22.5)
Share Of Profit From An Equity-Accounted Associate	888	398	123.1	1,604	789	103.3
Share Of Losses From Equity-Accounted Joint Ventures	(89)	(102)	(12.7)	(145)	(255)	(43.1)
Profit Before Income Tax	2,026	3,775	(46.3)	3,496	4,468	(21.8)
Income Tax Expense	(457)	(686)	(33.4)	(613)	(762)	(19.6)
Profit, Net of Tax	1,569	3,089	(49.2)	2,883	3,706	(22.2)
Other Comprehensive Income:						
Items That May Be Reclassified Subsequently To Profit Or Loss:						
Exchange Differences On Translating Foreign Operations, Net Of Tax	(360)	165	N.M.	(196)	193	N.M.
Other Comprehensive Income For The Period, Net Of Tax	(360)	165	N.M.	(196)	193	N.M.
Total Comprehensive Income	1,209	3,254	(62.8)	2,687	3,899	(31.1)
Profit, Net Of Tax Attributable To:						
- Owners Of The Parent	1,650	3,229	(48.9)	2,996	3,932	(23.8)
- Non-Controlling Interests	(81)	(140)	(42.1)	(113)	(226)	(50.0)
	1,569	3,089	(49.2)	2,883	3,706	(22.2)
Total Comprehensive Income Attributable To:						
- Owners Of The Parent	1,290	3,394	(62.0)	2,800	4,125	(32.1)
- Non-Controlling Interests	(81)	(140)	(42.1)	(113)	(226)	(50.0)
	1,209	3,254	(62.8)	2,687	3,899	(31.1)

Note:

(1) N.M. = Not meaningful

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For the Financial Period Ended 30 June 2019

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

	Group			Group		
	Unaudited 2Q2019	Unaudited 2Q2018	Increase/ (Decrease)	Unaudited HY2019	Unaudited HY2018	Increase/ (Decrease)
	(3 months) S\$'000	(3 months) S\$'000	(Decrease) %	(6 months) S\$'000	(6 months) S\$'000	(Decrease) %
Interest Expense On Borrowings	(1,092)	(1,026)	6.4	(2,105)	(1,998)	5.4
Interest Expense On Lease Liabilities	(88)	-	N.M.	(177)	-	N.M.
Interest Income	25	15	66.7	40	16	150.0
Amortisation And Depreciation Expense	(1,908)	(1,489)	28.1	(3,806)	(3,022)	25.9
Allowance For Impairment Of Trade Receivables	(20)	(87)	(77.0)	(20)	(87)	(77.0)
Allowance For Impairment Of Trade Receivables, Reversal	-	-	N.M.	4	-	N.M.
Bad Debts Recovered - Trade Receivables	-	1	(100.0)	5	10	(50.0)
Bad Debts Written-Off - Trade Receivables	-	-	N.M.	(5)	-	N.M.
Bad Debts Written-Off - Other Receivables	(6)	-	N.M.	(24)	-	N.M.
Net Allowance For Impairment Of Inventories	(154)	(242)	(36.4)	(392)	(720)	(45.6)
Foreign Exchange Adjustment Gain (Loss)	(180)	(201)	(10.4)	(2)	(317)	(99.4)
Fair Value Gain On Derivative Financial Instruments, Net	92	211	(56.4)	17	237	(92.8)
Gain (Loss) On Disposal Of Plant And Equipment	(8)	(6)	33.3	1	(10)	N.M.
Adjustment For Over Provision Of Tax In Respect Of Prior Years	1	5	(80.0)	1	5	(80.0)

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For the Financial Period Ended 30 June 2019

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

	Group		Company	
	Unaudited 30 June 2019 S\$'000	Audited 31 December 2018 S\$'000	Unaudited 30 June 2019 S\$'000	Audited 31 December 2018 S\$'000
ASSETS				
Non-Current Assets:				
Property, Plant and Equipment	78,649	80,707	408	454
Other Assets, Non-current	29,920	30,550	-	-
Right-of-Use Assets	11,853	-	-	-
Investments in Subsidiaries	-	-	9,239	9,239
Investment in an Associate	13,928	12,480	-	-
Investments in Joint Ventures	2,315	2,483	-	-
Investment Property	4,219	4,228	-	-
Other Financial Assets, Non-current	423	423	423	423
Other Receivables, Non-current	738	992	-	-
Total Non-Current Assets	142,045	131,863	10,070	10,116
Current Assets:				
Inventories	55,026	57,192	-	-
Trade and Other Receivables, Current	33,801	34,666	27,004	29,454
Other Assets, Current	7,220	6,668	3	9
Cash and Cash Equivalents	5,659	6,063	38	26
Total Current Assets	101,706	104,589	27,045	29,489
Total Assets	243,751	236,452	37,115	39,605
EQUITY AND LIABILITIES				
Equity:				
Share Capital	26,930	26,930	26,930	26,930
Retained Earnings	38,611	38,068	126	2,253
Other Reserves	(1,182)	(986)	-	-
Equity, Attributable to Owners of the Parent	64,359	64,012	27,056	29,183
Non-Controlling Interests	1,993	2,181	-	-
Total Equity	66,352	66,193	27,056	29,183
Non-Current Liabilities:				
Deferred Tax Liabilities	685	573	-	-
Other Financial Liabilities, Non-current	80,847	83,080	171	193
Lease Liabilities, Non-current	10,531	-	-	-
Total Non-Current Liabilities	92,063	83,653	171	193
Current Liabilities:				
Provision	629	891	-	-
Income Tax Payable	1,624	2,043	4	4
Trade and Other Payables	16,552	20,835	9,840	10,182
Other Financial Liabilities, Current	61,853	60,287	44	43
Lease Liabilities, Current	1,644	-	-	-
Other Liabilities	3,016	2,515	-	-
Derivative Financial Liabilities	18	35	-	-
Total Current Liabilities	85,336	86,606	9,888	10,229
Total Liabilities	177,399	170,259	10,059	10,422
Total Equity and Liabilities	243,751	236,452	37,115	39,605

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For the Financial Period Ended 30 June 2019

1(b)(ii) Aggregate amount of the Group's borrowings and debt securities as at the end of the current financial period reported on with comparative figures as at the end of the immediately preceding financial year.**Amount repayable in one year or less, or on demand**

	Group			
	Unaudited		Audited	
	As at 30 June 2019		As at 31 December 2018	
	Secured	Unsecured	Secured	Unsecured
	S\$'000	S\$'000	S\$'000	S\$'000
Bank Loans	42,275	-	34,436	-
Trust Receipts and Bills Payable to Banks	19,309	-	25,451	-
Finance Lease Liabilities	269	-	400	-
	61,853	-	60,287	-

Amount repayable after one year

	Group			
	Unaudited		Audited	
	As at 30 June 2019		As at 31 December 2018	
	Secured	Unsecured	Secured	Unsecured
	S\$'000	S\$'000	S\$'000	S\$'000
Bank Loans	80,621	-	82,761	-
Finance Lease Liabilities	226	-	319	-
	80,847	-	83,080	-

Details of collaterals relating to the above borrowingsBank Loans

These are covered by:

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

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

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

Trust Receipts and Bills Payable to Banks

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

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For the Financial Period Ended 30 June 2019

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

	Group		Group	
	Unaudited 2Q2019	Unaudited 2Q2018	Unaudited HY2019	Unaudited HY2018
	(3 months) S\$'000	(3 months) S\$'000	(6 months) S\$'000	(6 months) S\$'000
Cash Flows From Operating Activities				
Profit Before Income Tax	2,026	3,775	3,496	4,468
Adjustment For:				
Interest Expense On Borrowings	1,092	1,026	2,105	1,998
Interest Expense On Lease Liabilities	88	-	177	-
Interest Income	(25)	(15)	(40)	(16)
Share Of Profit From An Equity-Accounted Associate	(888)	(398)	(1,604)	(789)
Share Of Losses From Equity-Accounted Joint Ventures	89	102	145	255
Depreciation Of Investment Property	5	4	9	9
Depreciation Of Property, Plant And Equipment	1,220	1,184	2,439	2,411
Depreciation of Right-of-Use Assets	383	-	758	-
Amortisation Of Other Assets, Non Current	300	301	600	602
Loss (Gain) On Disposal Of Plant And Equipment	8	6	(1)	10
Net Effect Of Exchange Rate Changes In Consolidating Subsidiaries	43	(116)	97	(91)
Operating Cash Flows Before Changes In Working Capital	4,341	5,869	8,181	8,857
Inventories	627	(2,159)	2,166	(2,967)
Trade And Other Receivables	(284)	(1,890)	2,069	654
Other Assets, Current	(190)	(1,067)	(552)	(444)
Provision	65	218	(262)	49
Trade And Other Payables	(857)	1,784	(4,320)	1,433
Derivative Financial Liabilities	(92)	(212)	(17)	(237)
Other Liabilities	1,088	(288)	501	(713)
Net Cash Flows From Operations	4,698	2,255	7,766	6,632
Income Taxes Paid	(968)	(454)	(919)	(712)
Net Cash Flows From Operating Activities	3,730	1,801	6,847	5,920
Cash Flows From Investing Activities				
Purchase Of Property, Plant And Equipment	(346)	(472)	(460)	(1,780)
Proceeds From Disposal Of Plant And Equipment	36	-	45	-
Dividend Income From A Joint Venture	-	-	-	15
Interest Income Received	408	1	409	2
Net Movements In Amount Due From An Associate	-	-	(1,357)	(1,314)
Net Cash Flows From (Used In) Investing Activities	98	(471)	(1,363)	(3,077)
Cash Flows From Financing Activities				
Dividends Paid To Equity Owners	(2,153)	(2,153)	(2,153)	(2,153)
Dividends Paid To Non-Controlling Interests	(75)	(261)	(75)	(261)
(Decrease) Increase In Trust Receipts And Bills Payable	(2,385)	1,323	(6,142)	(806)
Net Movements In Amounts Due To A Director And A Shareholder	-	-	53	126
Repayment for Lease Liabilities	(476)	-	(917)	-
Repayment Of Finance Lease Liabilities	(106)	(101)	(224)	(202)
Increase From New Borrowings	4,500	3,500	7,900	6,242
Repayment Of Bank Loans	(1,098)	(2,075)	(2,199)	(3,134)
Interest Expense Paid	(1,086)	(1,032)	(2,121)	(2,008)
Net Cash Flows Used In Financing Activities	(2,879)	(799)	(5,878)	(2,196)
Net Increase (Decrease) In Cash And Cash Equivalents	949	531	(394)	647
Net Effect Of Exchange Rate Changes On Cash And Cash Equivalents	(12)	60	(10)	45
Cash And Cash Equivalents, Beginning Balance	4,722	6,097	6,063	5,996
Cash And Cash Equivalents, Ending Balance	5,659	6,688	5,659	6,688

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For the Financial Period Ended 30 June 2019

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

GROUP	Total Equity S\$'000	Attributable to Parent Subtotal S\$'000	Share Capital S\$'000	Retained Earnings S\$'000	Other Reserves (Note 1) S\$'000	Non-Controlling Interests S\$'000
Current Period (Unaudited):						
Opening Balance at 1 January 2019	66,193	64,012	26,930	38,068	(986)	2,181
Effect on Initial Adoption of SFRS(I) 16 Leases	(300)	(300)	-	(300)	-	-
At 1 January 2019, as restated	65,893	63,712	26,930	37,768	(986)	2,181
Total Comprehensive Income (Loss) for the Period	1,478	1,510	-	1,346	164	(32)
Closing Balance at 31 March 2019	67,371	65,222	26,930	39,114	(822)	2,149
Total Comprehensive Income (Loss) for the Period	1,209	1,290	-	1,650	(360)	(81)
Dividends Paid (Note 2)	(2,153)	(2,153)	-	(2,153)	-	-
Dividends Paid to Non-Controlling Interests	(75)	-	-	-	-	(75)
Closing Balance at 30 June 2019	66,352	64,359	26,930	38,611	(1,182)	1,993
Previous Period (Unaudited):						
Opening Balance at 1 January 2018	61,078	58,032	26,930	31,651	(549)	3,046
Total Comprehensive Income (Loss) for the Period	645	731	-	703	28	(86)
Closing Balance at 31 March 2018	61,723	58,763	26,930	32,354	(521)	2,960
Total Comprehensive Income (Loss) for the Period	3,254	3,394	-	3,229	165	(140)
Dividends Paid (Note 2)	(2,153)	(2,153)	-	(2,153)	-	-
Dividends Paid to Non-Controlling Interests	(261)	-	-	-	-	(261)
Closing Balance at 30 June 2018	62,563	60,004	26,930	33,430	(356)	2,559

Note 1:

Other Reserves	Group		Company	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	S\$'000	S\$'000	S\$'000	S\$'000
Foreign Currency Translation Reserve	(1,182)	(356)	-	-

Note 2:

Dividends on Equity Shares	Unaudited HY2019 S\$'000	Unaudited HY2018 S\$'000
Final tax exempt (1-tier) dividend paid of:		
- 0.5 cent per share on total number of issued ordinary shares of 430,550,000	2,153	2,153
	2,153	2,153

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For the Financial Period Ended 30 June 2019

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

COMPANY	Total Equity S\$'000	Share Capital S\$'000	Retained Earnings S\$'000
Current Period (Unaudited):			
Opening Balance at 1 January 2019	29,183	26,930	2,253
Total Comprehensive Income for the Period	14	-	14
Closing Balance at 31 March 2019	29,197	26,930	2,267
Total Comprehensive Income for the Period	12	-	12
Dividends Paid (Note 2)	(2,153)	-	(2,153)
Closing Balance at 30 June 2019	27,056	26,930	126
Previous Period (Unaudited):			
Opening Balance at 1 January 2018	29,237	26,930	2,307
Total Comprehensive Income for the Period	10	-	10
Closing Balance at 31 March 2018	29,247	26,930	2,317
Total Comprehensive Income for the Period	17	-	17
Dividends Paid (Note 2)	(2,153)	-	(2,153)
Closing Balance at 30 June 2018	27,111	26,930	181

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

There have been no changes in the Company's issued share capital since 31 December 2018. The Company has no outstanding share options, outstanding convertibles, treasury shares and subsidiary holdings as at 30 June 2019 and 30 June 2018.

The Company has not granted options or shares under its share scheme during the financial period ended 30 June 2019.

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

Company	
Unaudited 30 June 2019	Audited 31 December 2018
430,550,000	430,550,000

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

The Company has no treasury shares as at 30 June 2019 and there were no sale transfer, disposal and/ or use of treasury shares during HY2019.

1(d)(v) Statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

There was no subsidiary holdings during the financial period ended 30 June 2019.

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For the Financial Period Ended 30 June 2019

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

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

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

Not applicable.

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

The Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting period compared with the audited annual financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Singapore Financial Reporting Standards (International) ("SFRS(I)") which are effective for its financial year beginning 1 January 2019.

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

The Group has adopted the new Singapore Financial Reporting Standards (International) ("SFRS(I)") 16 Leases, which took effect on 1 January 2019, using the modified retrospective approach. SFRS(I) 16 introduces a single, on-balance sheet lessee accounting model. The rationale of the change is to better reflect the economic substance of lease transactions. It requires a lessee to recognise a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The cumulative effect of adopting SFRS(I) 16 has been recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. As at 1 January 2019, the Group has accounted for an increase in ROU assets of S\$11.9 million, and increase in lease liabilities of S\$12.2 million and a decrease in retained earnings of S\$0.3 million.

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For the Financial Period Ended 30 June 2019

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

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

	Group		Group	
	Unaudited 2Q2019 (3 months)	Unaudited 2Q2018 (3 months)	Unaudited HY2019 (6 months)	Unaudited HY2018 (6 months)
EPS:				
(a) Basic	0.38 cents	0.75 cents	0.70 cents	0.91 cents
(b) Fully diluted basis	0.38 cents	0.75 cents	0.70 cents	0.91 cents

Basic EPS 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 period.

Dilutive earnings per share are the same as basic earnings per share as there were no potential dilutive ordinary shares existing during the respective period.

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

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

	Group		Company	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Net asset value ("NAV") per ordinary share based on the total number of issued shares	14.9 cents	14.9 cents	6.3 cents	6.8 cents

Note:

NAV per ordinary share is calculated based on 430,550,000 ordinary shares in issue as at 30 June 2019 and 31 December 2018.

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For the Financial Period Ended 30 June 2019

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

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

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

Revenue

For 2Q2019, the Group registered a revenue of S\$26.5 million compared to S\$30.8 million during 2Q2018. For HY2019, the Group registered a revenue of S\$51.5 million compared to S\$56.2 million during HY2018.

The revenue mainly consists of below segments:

General segment

For 3 months ended, revenue from the general segment (where customers include home-owners, architecture, interior design and renovation firms) decreased by S\$3.4 million or 18.2% from S\$18.7 million during 2Q2018 to S\$15.3 million during 2Q2019 at the back of a less active property resale market. For HY2019, revenue from general segment decreased by S\$3.5 million or 10.7% from S\$32.7 million during HY2018 to S\$29.2 million during HY2019.

Project segment

For 3 months ended, revenue from the project segment (where customers include architecture firms, property developers and construction companies) decreased by S\$1.1 million or 9.6% from S\$11.5 million during 2Q2018 to S\$10.4 million during 2Q2019. For HY2019, revenue from project segment decreased by S\$1.7 million or 7.6% from S\$22.3 million during HY2018 to S\$20.6 million during HY2019. The project segment continued to be affected by the slowdown of private sector construction activities since 2017.

Interest Income

The interest income mainly pertains to a loan of US\$2 million (equivalent to approximately S\$2.7 million) to an associate, Viet Ceramics International Joint Stock Company ("VCI"), to support their business expansion in Vietnam.

Other Gains

For 2Q2019 and HY2019, other gains mainly comprised of fair value gain on derivative financial instruments, compensation received and government grant amounted to S\$0.1 million.

For 2Q2018, other gains mainly comprised of fair value gain on derivative financial instruments of S\$0.2 million and compensation received of S\$0.1 million. For HY2018, other gains mainly comprised of fair value gain on derivative financial instruments of S\$0.2 million, compensation received of S\$0.1 million and government grant income, such as those from wages credit scheme and special employment credit, amounting to S\$0.1 million.

Other Losses

For 2Q2019 and HY2019, other losses mainly comprised of foreign exchange adjustments losses.

For 2Q2018 and HY2018, other losses mainly comprised of foreign exchange adjustments losses of S\$0.2 million and S\$0.3 million respectively.

Purchase of inventories are mainly denominated in United States Dollar ("USD") and Euro. The Group entered into foreign currency forward contracts to hedge against fluctuations of exchange rates in USD and Euro. These are binding contracts in the foreign exchange market that locks in the exchange rate for the purchase or sale of a currency on a future date. The difference between foreign currency forward contract rates and forward market rates as at period end date would then be recorded as fair value gain/(loss) on derivative financial instruments under 'Other Gains' or 'Other Losses'.

HAFARY HOLDINGS LIMITED

For the Financial Period Ended 30 June 2019

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

Cost of Sales

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

For 3 months ended, cost of sales decreased by S\$2.3 million or 12.9% from S\$17.3 million during 2Q2018 to S\$15.0 million during 2Q2019. For HY2019, cost of sales decreased by S\$2.8 million or 8.5% from S\$32.1 million during HY2018 to S\$29.3 million during HY2019.

The gross profit margin (based on revenue from sale of goods (excluding rental and other income) and cost of sales, without taking into account labor costs and overheads) of 41.5% for 2Q2019 (HY2019: 41.1%) slightly decreased as compared to 42.7% for 2Q2018 (HY2018: 41.6%).

Employee Benefits Expense

For 3 months ended, employee benefits expenses increased by S\$0.1 million or 2.3% from S\$4.8 million during 2Q2018 to S\$4.9 million during 2Q2019. For HY2019, employee benefits expenses increased by S\$0.4 million or 3.5% from S\$9.4 million during HY2018 to S\$9.8 million during HY2019. As at 30 June 2019, the Group had 358 employees (including directors) (30 June 2018: 343).

The increase was mainly due to annual salary increment with effect from July 2018 and increase in headcount.

Amortisation and Depreciation Expense

For 3 months ended, amortisation and depreciation expenses increased by S\$0.4 million or 28.1% from S\$1.5 million during 2Q2018 to S\$1.9 million during 2Q2019. For half year ended, amortisation and depreciation expenses increased by S\$0.8 million or 25.9% from S\$3.0 million during HY2018 to S\$3.8 million during HY2019. The Group recorded depreciation of right-of-use assets of S\$0.4 million in 2Q2019 and \$0.8 million in HY2019 arising from the adoption of the new lease accounting standard, using the modified retrospective approach, which replaces the straight line operating lease expense, effective from 1 January 2019. The straight line operating lease expense was previously classified under " Other Expenses".

Impairment Losses

The impairment losses mainly comprised of allowance for impairment of inventories.

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

For 3 months ended, the impairment losses decreased by S\$0.1 million or 45.1% from S\$0.3 million during 2Q2018 to S\$0.2 million during 2Q2019. For half year ended, the impairment losses decreased by S\$0.4 million or 45.8% from S\$0.8 million during HY2018 to S\$0.4 million during HY2019 mainly due to decrease in allowance for impairment of inventories contributed by the promotional mark down sales in May 2019.

Finance Costs

For 3 months ended, finance costs increased by S\$0.2 million or 15.0% from S\$1.0 million during 2Q2018 to S\$1.2 million during 2Q2019. For half year ended, finance costs increased by S\$0.3 million or 14.2% from S\$2.0 million during HY2018 to S\$2.3 million during HY2019. The increase in finance costs was mainly due to increase in interest rates and recognition of interest expense on lease liabilities upon the recognition of the right-of-use assets following the implementation of SFRS (I)16 Leases on 1 January 2019.

Other Expenses

For 3 months ended, other expenses decreased by S\$0.5 million or 20.2% from S\$2.5 million during 2Q2018 to S\$2.0 million during 2Q2019. For half year ended, other expenses decreased by S\$1.1 million or 22.5% from S\$5.1 million during HY2018 to S\$4.0 million during HY2019.

The decrease in other expenses were mainly attributable to the reversal of straight line operating expense amounting to S\$0.4 million during 2Q2019 and S\$0.8 million during HY2019 after adoption of SFRS(I) 16 with effective from 1 January 2019.

HAFARY HOLDINGS LIMITED

For the Financial Period Ended 30 June 2019

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

Share of Profit from an Equity-Accounted Associate

For 3 months ended, share of profit from associate, Viet Ceramics International Joint Stock Company ("VCI"), increased by S\$0.5 million or 123.1% from S\$0.4 million during 2Q2018 to S\$0.9 million during 2Q2019. For half year ended, share of profit from associate, VCI, increased by S\$0.8 million or 103.3% from S\$0.8 million during HY2018 to S\$1.6 million during HY2019. The increase in share of profit is due to improved financial performance of VCI under the backdrop of positive economic climate and high level of construction activities in Vietnam.

Share of Losses from Equity-Accounted Joint Ventures

In November 2017, the Group incorporated and took a 50% equity interest in a joint venture company, Guangdong ITA Element Building Materials Co., Limited ("ITA Element") with its capital injection of RMB15,000,000 (Equivalents S\$3.1 million). The investment in ITA Element is part of the Group's growth strategy to enhance its regional presence.

In October 2018, the Group incorporated and took a 33% equity in a joint venture company, Hafary Myanmar Co. Ltd. ("Hafary Myanmar") to facilitate the Group's penetration into the emerging market.

For 3 months ended in 2Q2019 and 2Q2018, the share of losses from joint ventures were amounted to S\$0.1 million. For half year ended, share of losses from joint ventures decreased by S\$0.2 million or 43.1% from \$0.3 million during HY2018 to \$0.1 million during HY2019.

Profit Before Income Tax

For 3 months ended, profit before income tax decreased by S\$1.8 million or 46.3% from S\$3.8 million during 2Q2018 to S\$2.0 million during 2Q2019. For half year ended, profit before income tax decreased by S\$1.0 million or 21.8% from S\$4.5 million during HY2018 to S\$3.5 million during HY2019.

For 3 months ended, excluding share of profits (losses) from associate and joint ventures amounting to S\$0.8 million for 2Q2019 (2Q2018: S\$0.3 million), profit before income tax generated from recurring activities was S\$1.2 million for 2Q2019 (2Q2018: S\$3.5 million). For half year ended, excluding share of profits (losses) from associate and joint ventures amounting to S\$1.5 million for HY2019 (HY2018: S\$0.5 million), profit before income tax generated from recurring activities was S\$2.0 million for HY2019 (HY2018: S\$4.0 million).

Other Comprehensive Income

This pertained to foreign exchange difference on translating foreign operations.

Income Tax Expense

The current tax expense is based on the statutory tax rates of the respective countries in which the Group operates and takes into account non deductible expenses and temporary differences. Income tax expense was lower in 2Q2019 and HY2019 because of lower taxable profits during the period.

HAFARY HOLDINGS LIMITED

For the Financial Period Ended 30 June 2019

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

Non-Current Assets

Non-current assets increased by S\$10.2 million or 7.7% from S\$131.9 million as at 31 December 2018 to S\$142.1 million as at 30 June 2019.

Property, plant and equipment decreased by S\$2.1 million or 2.5% from S\$80.7 million as at 31 December 2018 to S\$78.6 million as at 30 June 2019. The decrease was mainly due to disposal of plant and equipment of S\$0.2 million and depreciation expense amounting to S\$2.4 million which was partially offset by the addition of plant and equipment amounting to S\$0.5 million during the period.

The decrease in other asset (land use rights relating to Group's leasehold properties in Singapore and China) amounting to S\$0.6 million was due to amortisation expense of S\$0.6 million.

Following the adoption of SFRS (I) 16 Leases on 1 January 2019, most of the leases where the Group is the lessee was brought onto the statements of financial position as right-of-use assets at its net present value of S\$11.9 million.

The increase in investment in associate amounting to S\$1.4 million pertained to shares of profits amounting to S\$1.6 million from VCI and partially offset by exchange differences on translating associate with foreign operation amounting of S\$0.2 million.

The decrease in investment in joint ventures amounting to S\$0.2 million pertained to shares of losses from joint ventures amounting to S\$0.2 million.

Investment property at carrying value of S\$4.2 million pertains to 532 Balestier Road Singapore 329859.

Other financial assets pertain to the Group's investment in shares of Healthbank Holdings Limited (formerly known as SMJ International Holdings Limited)(Listed on SGX Catalist).

Other receivables pertain to reclassification of unquoted investment, upon shareholder withdrawal agreement signed on 20 December 2018.

Current Assets

Current assets decreased by S\$2.9 million or 2.8% from S\$104.6 million as at 31 December 2018 to S\$101.7 million as at 30 June 2019.

The decrease was mainly due to decrease in inventories, trade and other receivables and cash and cash equivalent amounting to S\$2.2 million, S\$0.9 million and S\$0.4 million respectively. The decrease was partially offset by the increase in other assets amounting to S\$0.6 million.

Other assets pertained to advance payment to suppliers, deposits to secure services and prepayments.

Trade receivables turnover as at 30 June 2019 is 88 days compared to 94 days as at 31 December 2018. Inventory turnover day as at 30 June 2019 and 31 December 2018 remained constant at 304 days.

Non-Current Liabilities

Non-current liabilities increased by S\$8.4 million or 10.1% from S\$83.7 million as at 31 December 2018 to S\$92.1 million as at 30 June 2019. The increase was mainly due to the recognition of lease liabilities of S\$10.5 million as a results of adopting SFRS(I) 16 and partially offset with the repayment of loans during the period.

HAFARY HOLDINGS LIMITED

For the Financial Period Ended 30 June 2019

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

Current Liabilities

Current liabilities decreased by S\$1.3 million or 1.5% from S\$86.6 million as at 31 December 2018 to S\$85.3 million as at 30 June 2019.

The decrease was mainly attributable to the decrease in trade and other payables of S\$4.3 million, income tax payable of S\$0.4 million and provision of S\$0.3 million. The decrease was partially offset by the increase in other financial liabilities of S\$1.6 million, other liabilities of S\$0.5 million and lease liabilities of S\$1.6 million.

Total amount of trade payables and trust receipts and bills payable to banks was S\$26.4 million (31 December 2018: S\$34.5 million). The turnover of the aforesaid items (based on cost of sales) is 146 days as at 30 June 2019 compared to 183 days as at 31 December 2018.

The increase in other financial liabilities was mainly due to loan drawdown amounting to S\$7.9 million during the period. This was partially offset by the decrease in trust receipts and bills payable to banks by S\$6.1 million and repayment of finance lease liabilities of S\$0.2 million.

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

As at 30 June 2019, derivative financial liabilities amounting to S\$18,000 pertained to fair value loss on outstanding foreign currency forward contracts (31 December 2018: S\$35,000). Purchase of inventories are mainly denominated in United States Dollar ("USD") and Euro. The Group entered into foreign currency forward contracts to hedge against fluctuations of exchange rates in USD and Euro. The difference between forward contract rates and the forward market rates may resulted in fair value gain or loss. This fair value gain or loss will be recorded in profit or loss under other gains or other losses and correspondingly recorded as a current asset or current liability in statement of financial position.

Other Reserves

This pertains to foreign exchange difference on translating foreign operations.

HAFARY HOLDINGS LIMITED

For the Financial Period Ended 30 June 2019

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

Cash Flows Review

2Q2019

Net cash flows from operating activities was S\$3.7 million due to operating cash flows before working capital changes of S\$4.3 million, net cash flows from working capital of S\$0.4 million and income tax paid of S\$1.0 million. The net cash flows from working capital of S\$0.4 million was mainly attributable by the decrease in inventories of S\$0.6 million and increase in provisions of S\$0.1 million and other liabilities of S\$1.1 million. This was partially offset by the increase in trade and other receivables of S\$0.3 million, increase in other assets of S\$0.2 million, decrease in derivative financial liabilities and trade and other payables of S\$0.1 million and S\$0.8 million respectively.

Net cash flows from investing activities amounting to S\$0.1 million for 2Q2019 was mainly attributable to interest income received from an unquoted investment of S\$0.4 million. This was partly offset by the cash outflow for purchase of plant and equipment of S\$0.3 million.

Net cash flows used in financing activities amounting to S\$2.9 million for 2Q2019 was mainly attributable by the decrease in trust receipt and bill payable of S\$2.4 million, repayment of interest expenses of S\$1.1 million, repayment of lease liabilities of S\$0.5 million, repayment of bank loans and finance lease liabilities of S\$1.2 million and dividend paid to equity owners and non-controlling interests of S\$2.2 million. This was partially offset by an increase from new borrowings of S\$4.5 million.

As a result of the above, there was a net increase of S\$0.9 million in cash and cash equivalents for 2Q2019. Cash and cash equivalents as at 30 June 2019 was S\$5.7 million.

HY2019

Net cash flows from operating activities was S\$6.9 million due to operating cash flows before working capital changes of S\$8.2 million and net cash flows used in working capital of S\$0.4 million and income taxes paid of S\$0.9 million. The net cash flows used in working capital of S\$0.4 million was mainly attributable by the decrease in inventories and trade and other receivables of S\$2.2 million and S\$2.0 million respectively and increase in other liabilities of S\$0.5 million. This was partially offset by the increase in other assets of S\$0.5 million, decrease in trade and other payables and provision of S\$4.3 million and S\$0.3 million respectively.

Net cash flows used in investing activities amounting to S\$1.4 million for HY2019 was attributable to cash outflow for purchase of property, plant and equipment and net movement in amount due from an associate of S\$0.5 million and S\$1.3 million respectively. This was partially offset by interest income received from an unquoted investment of S\$0.4 million.

Net cash flows used in financing activities amounting to S\$5.9 million for HY2019 was mainly attributable by the decrease in trust receipt and bill payable of S\$6.1 million, repayment of interest expenses of S\$2.1 million, repayment of lease liabilities of S\$1.0 million, repayment of bank loans and finance lease liabilities of S\$2.4 million and dividend paid to equity owners and non-controlling interests of S\$2.2 million. This was partially offset by an increase from new borrowing of S\$7.9 million.

As a result of the above, there was a net decrease of S\$0.4 million in cash and cash equivalents for HY2019. Cash and cash equivalents as at 30 June 2019 was S\$5.7 million.

HAFARY HOLDINGS LIMITED

For the Financial Period Ended 30 June 2019

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

Not applicable. No forecast or prospect statement had been previously disclosed to shareholders.

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

The Building and Construction Authority of Singapore ("BCA") projected construction demand of between S\$27 billion and S\$32 billion for 2019, with about 60% contributed by public sector demand.

For 2020 to 2023, BCA expects construction demand to range between S\$27 billion and S\$35 billion each year, with about 60% from public projects and the remaining from private projects.

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

HAFARY HOLDINGS LIMITED

For the Financial Period Ended 30 June 2019

11 Dividend**(a) Dividend declared for the current financial period**

No dividend has been declared for 2Q2019.

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

No dividend has been declared for 2Q2018.

(c) Date Payable

Not applicable.

(d) Books closure date

Not applicable.

12 If no dividend has been declared (recommended), a statement to that effect and the reason(s) for the decision.

No dividend has been declared for the current financial period reported on. Dividend, if any, will be recommended in the following quarterly announcement.

13 Interested Person Transactions ("IPTs")

Name of Interested Persons and Nature of IPTs	Aggregate value of all interested person transactions during the financial year 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
	HY2019 S\$'000	HY2019 S\$'000
Purchases of goods:		
Malaysian Mosaics Sdn Bhd	2,510	-
MML Marketing Pte Ltd	1,360	-
Sales of goods:		
Malaysian Mosaics Sdn Bhd	499	-

General mandate for IPT was renewed at the Annual General Meeting held on 24 April 2019.

HAFARY HOLDINGS LIMITED

For the Financial Period Ended 30 June 2019

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

We, Low Kok Ann and Low See Ching, being Directors of the Company, do hereby confirm, on behalf of the Board of Directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the interim financial statements for 2Q2019 and HY2019 to be false or misleading in any material aspect.

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

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

BY ORDER OF THE BOARD

Low Kok Ann
Executive Director and Chief Executive Officer

1 August 2019