



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 ("2Q2018") and Half Year ("HY2018")
Ended 30 June 2018**

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HAFARY HOLDINGS LIMITED

For the Period Ended 30 June 2018

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 2Q2018	Unaudited 2Q2017	Increase/ Decrease	Unaudited HY2018	Unaudited HY2017	Increase/ Decrease
	(3 months) S\$'000	(3 months) S\$'000	%	(6 months) S\$'000	(6 months) S\$'000	(Decrease) %
Revenue	30,833	29,818	3.4	56,216	55,091	2.0
Interest Income	15	14	7.1	16	35	(54.3)
Other Gains	307	437	(29.7)	445	227	96.0
Changes In Inventories of Finished Goods	2,355	1,898	24.1	3,849	1,842	109.0
Purchases and Related Costs	(19,628)	(19,349)	1.4	(35,907)	(34,284)	4.7
Employee Benefits Expenses	(4,838)	(4,545)	6.4	(9,427)	(8,908)	5.8
Amortisation and Depreciation Expense	(1,489)	(1,523)	(2.2)	(3,022)	(3,036)	(0.5)
Impairment Losses	(328)	(507)	(35.3)	(797)	(834)	(4.4)
Other Losses	(207)	(512)	(59.6)	(327)	(254)	28.7
Finance Costs	(1,026)	(876)	17.1	(1,998)	(1,730)	15.5
Other Expenses	(2,515)	(2,662)	(5.5)	(5,114)	(5,743)	(11.0)
Share of Profit from an Equity-Accounted Associate	398	788	(49.5)	789	1,252	(37.0)
Share of (Loss) Profit from Equity-Accounted Joint Ventures	(102)	14	N.M.	(255)	(153)	66.7
Profit Before Tax	3,775	2,995	26.0	4,468	3,505	27.5
Income Tax Expense	(686)	(445)	54.2	(762)	(517)	47.4
Profit, Net of Tax	3,089	2,550	21.1	3,706	2,988	24.0
Other Comprehensive Income (Loss):						
Items that may be reclassified subsequently to Profit or Loss:						
Exchange Differences on Translating Foreign Operations, Net of Tax	165	(62)	N.M.	193	(459)	N.M.
Other Comprehensive Income (Loss) for the Period, Net of Tax	165	(62)	N.M.	193	(459)	N.M.
Total Comprehensive Income	3,254	2,488	30.8	3,899	2,529	54.2
Profit, Net of Tax Attributable to:						
- Owners of the Parent	3,229	2,656	21.6	3,932	3,111	26.4
- Non-Controlling Interests	(140)	(106)	32.1	(226)	(123)	83.7
	3,089	2,550	21.1	3,706	2,988	24.0
Total Comprehensive Income Attributable to:						
- Owners of the Parent	3,394	2,594	30.8	4,125	2,652	55.5
- Non-Controlling Interests	(140)	(106)	32.1	(226)	(123)	83.7
	3,254	2,488	30.8	3,899	2,529	54.2

Notes:

(1) N.M. = Not meaningful

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For the Period Ended 30 June 2018

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

	Group			Group		
	Unaudited 2Q2018	Unaudited 2Q2017	Increase/ (Decrease)	Unaudited HY2018	Unaudited HY2017	Increase/ (Decrease) %
	(3 months) S\$'000	(3 months) S\$'000		(6 months) S\$'000	(6 months) S\$'000	
Interest Expense on Borrowings	(1,026)	(876)	17.1	(1,998)	(1,730)	15.5
Interest Income	15	14	7.1	16	35	(54.3)
Amortisation and Depreciation Expense	(1,489)	(1,523)	(2.2)	(3,022)	(3,036)	(0.5)
Allowance for Impairment of Trade Receivables	(87)	(98)	(11.2)	(87)	(183)	(52.5)
Bad Debts Recovered - Trade Receivables	1	32	(96.9)	10	36	(72.2)
Bad Debts Written-Off - Trade Receivables	-	-	N.M.	-	(10)	N.M.
Net Allowance for Impairment of Inventories	(242)	(441)	(45.1)	(720)	(677)	6.4
Foreign Exchange Adjustment (Losses) Gains	(201)	(509)	(60.5)	(317)	85	N.M.
Fair Value Gain (Loss) on Derivative Financial Instruments, Net	211	360	(41.4)	237	(251)	N.M.
Loss on Disposal of Plant and Equipment	(6)	(3)	100.0	(10)	(4)	150.0
Adjustment for Over Provision of Tax in respect of Prior Years	5	27	(81.5)	5	79	(93.7)

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For the Period Ended 30 June 2018

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 2018 S\$'000	Audited 31 December 2017 S\$'000	Unaudited 30 June 2018 S\$'000	Audited 31 December 2017 S\$'000
ASSETS				
Non-Current Assets:				
Property, Plant and Equipment	109,262	111,225	134	167
Other Assets	4,354	4,395	-	-
Investments in Subsidiaries	-	-	9,239	9,239
Investment in an Associate	10,674	9,784	-	-
Investments in Joint Ventures	2,907	3,106	-	-
Investment Property	4,238	4,247	-	-
Other Financial Assets	2,648	2,636	586	586
Total Non-Current Assets	134,083	135,393	9,959	9,992
Current Assets:				
Inventories	54,217	51,250	-	-
Trade and Other Receivables	33,651	32,977	27,008	29,416
Derivative Financial Assets	8	-	-	-
Other Assets	5,343	4,899	3	4
Cash and Cash Equivalents	6,688	5,996	38	21
Total Current Assets	99,907	95,122	27,049	29,441
Total Assets	233,990	230,515	37,008	39,433
EQUITY AND LIABILITIES				
Equity:				
Share Capital	26,930	26,930	26,930	26,930
Retained Earnings	33,430	31,651	181	2,307
Other Reserves	(356)	(549)	-	-
Equity, Attributable to Owners of the Parent	60,004	58,032	27,111	29,237
Non-Controlling Interests	2,559	3,046	-	-
Total Equity	62,563	61,078	27,111	29,237
Non-Current Liabilities:				
Deferred Tax Liabilities	577	580	-	-
Other Financial Liabilities	85,265	86,898	39	54
Total Non-Current Liabilities	85,842	87,478	39	54
Current Liabilities:				
Provision	702	653	-	-
Income Tax Payable	1,642	1,589	2	3
Trade and Other Payables	20,721	19,988	9,824	10,105
Other Financial Liabilities	61,788	58,055	32	34
Other Liabilities	732	1,445	-	-
Derivative Financial Liabilities	-	229	-	-
Total Current Liabilities	85,585	81,959	9,858	10,142
Total Liabilities	171,427	169,437	9,897	10,196
Total Equity and Liabilities	233,990	230,515	37,008	39,433

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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 2018		As at 31 December 2017	
	Secured	Unsecured	Secured	Unsecured
	S\$'000	S\$'000	S\$'000	S\$'000
Bank Loans	38,180	-	33,630	-
Trust Receipts and Bills Payable to Banks	23,211	-	24,017	-
Finance Lease Liabilities	397	-	408	-
	61,788	-	58,055	-

Amount repayable after one year

	Group			
	Unaudited		Audited	
	As at 30 June 2018		As at 31 December 2017	
	Secured	Unsecured	Secured	Unsecured
	S\$'000	S\$'000	S\$'000	S\$'000
Bank Loans	85,054	-	86,496	-
Finance Lease Liabilities	211	-	402	-
	85,265	-	86,898	-

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
- (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.

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 2Q2018	Unaudited 2Q2017	Unaudited HY2018	Unaudited HY2017
	(3 months) S\$'000	(3 months) S\$'000	(6 months)	(6 months) S\$'000
Cash Flows From Operating Activities				
Profit Before Income Tax	3,775	2,995	4,468	3,505
Adjustment For:				
Interest Expense	1,026	876	1,998	1,730
Interest Income	(15)	(14)	(16)	(35)
Share Of Profit From An Equity-Accounted Associate	(398)	(788)	(789)	(1,252)
Share Of Loss (Profit) From Equity-Accounted Joint Ventures	102	(14)	255	153
Equity-Settled Share-Based Expenses	-	32	-	62
Depreciation Of Investment Property	4	5	9	9
Depreciation Of Plant And Equipment	1,451	1,485	2,945	2,961
Amortisation Of Other Asset	34	33	68	66
Loss On Disposal Of Plant And Equipment	6	3	10	4
Net Effect Of Exchange Rate Changes In Consolidating Subsidiaries	(116)	(173)	(91)	(235)
Operating Cash Flows Before Changes In Working Capital	5,869	4,440	8,857	6,968
Inventories	(2,159)	(1,466)	(2,967)	(1,584)
Trade And Other Receivables	(1,890)	(609)	654	125
Other Assets	(1,067)	208	(444)	365
Provision	218	41	49	29
Trade And Other Payables	1,784	2,987	1,433	(1,887)
Derivative Financial Assets / Liabilities	(212)	(360)	(237)	251
Other Liabilities	(288)	334	(713)	226
Net Cash Flows From Operations	2,255	5,575	6,632	4,493
Income Taxes Paid	(454)	(708)	(712)	(792)
Net Cash Flows From Operating Activities	1,801	4,867	5,920	3,701
Cash Flows From Investing Activities				
Purchase Of Property, Plant And Equipment	(472)	(518)	(1,780)	(916)
Proceeds From Disposal Of Plant And Equipment	-	2	-	2
Dividend Income From A Joint Venture	-	-	15	-
Interest Income Received	1	1	2	11
Net Movements In Amount Due From An Associate	-	-	(1,314)	-
Redemption Of Other Financial Asset	-	-	-	656
Net Cash Flows Used In Investing Activities	(471)	(515)	(3,077)	(247)
Cash Flows From Financing Activities				
Dividends Paid To Equity Owners	(2,153)	(2,145)	(2,153)	(2,145)
Dividends Paid To Non-Controlling Interests	(261)	(193)	(261)	(193)
Increase (Decrease) In Trust Receipts And Bills Payable	1,323	(1,022)	(806)	630
Net Movements In Amounts Due To Related Parties	-	-	126	437
Repayment Of Finance Lease Liabilities	(101)	(166)	(202)	(330)
Increase From New Borrowings	3,500	1,500	6,242	2,500
Repayment Of Bank Loans	(2,075)	(814)	(3,134)	(1,505)
Interest Expense Paid	(1,032)	(904)	(2,008)	(1,736)
Net Cash Flows Used In Financing Activities	(799)	(3,744)	(2,196)	(2,342)
Net Increase In Cash And Cash Equivalents	531	608	647	1,112
Net Effect Of Exchange Rate Changes On Cash And Cash Equivalents	60	(2)	45	(12)
Cash And Cash Equivalents, Beginning Balance	6,097	4,932	5,996	4,438
Cash And Cash Equivalents, Ending Balance	6,688	5,538	6,688	5,538

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For the Period Ended 30 June 2018

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 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
Previous Period (Unaudited):						
Opening Balance at 1 January 2017	57,727	54,175	26,634	27,204	337	3,552
Total Comprehensive Income (Loss) for the Period	41	58	-	455	(397)	(17)
Equity-Settled Share-Based Expenses	30	30	-	-	30	-
Closing Balance at 31 March 2017	57,798	54,263	26,634	27,659	(30)	3,535
Total Comprehensive Income (Loss) for the Period	2,488	2,594	-	2,656	(62)	(106)
Equity-Settled Share-Based Expenses	32	32	-	-	32	-
Dividends Paid (Note 2)	(2,145)	(2,145)	-	(2,145)	-	-
Dividends Paid to Non-Controlling Interests	(193)	-	-	-	-	(193)
Closing Balance at 30 June 2017	57,980	54,744	26,634	28,170	(60)	3,236

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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	Other Reserves (Note 1) S\$'000
Current 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	-
Equity-Settled Share-Based Expenses	-	-	-	-
Dividends Paid (Note 2)	(2,153)	-	(2,153)	-
Closing Balance at 30 June 2018	27,111	26,930	181	-
Previous Period (Unaudited):				
Opening Balance at 1 January 2017	26,625	26,634	(243)	234
Total Comprehensive Income for the Period	2,410	-	2,410	-
Equity-Settled Share-Based Expenses	30	-	-	30
Closing Balance at 31 March 2017	29,065	26,634	2,167	264
Total Comprehensive Income for the Period	12	-	12	-
Equity-Settled Share-Based Expenses	32	-	-	32
Dividends Paid (Note 2)	(2,145)	-	(2,145)	-
Closing Balance at 30 June 2017	26,964	26,634	34	296

Note 1:

Other Reserves	Group		Company	
	30 June 2018 S\$'000	30 June 2017 S\$'000	30 June 2018 S\$'000	30 June 2017 S\$'000
Foreign Currency Translation Reserve	(356)	(356)	-	-
Equity-Settled Share-Based Compensation Reserve	-	296	-	296
	(356)	(60)	-	296

Note 2:

Dividends on Equity Shares	Unaudited HY2018 S\$'000	Unaudited HY2017 S\$'000

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

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

- 2,145

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

2,145

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For the Period Ended 30 June 2018

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 had been no changes in the Company's issued share capital since 31 December 2017. The Company had no outstanding convertibles, treasury shares and no subsidiary holdings as at 30 June 2018 and 30 June 2017.

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 2018	Audited 31 December 2017
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 2018 and there were no sale transfer, disposal and/ or use of treasury shares during HY2018.

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 current financial period ended 30 June 2018.

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For the Period Ended 30 June 2018

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

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.

Except as set out in Note 5 of this announcement, the Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting period as those used in the most recently audited annual financial statements as at 31 December 2017.

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.

In the current reporting period, the Group adopted all of the new or revised Singapore Financial Reporting Standards (International) ("SFRS(I)") and Interpretations to SFRS(I) ("SFRS(I) INT") that are relevant to its operations and are effective for first-time adoption during the current reporting period. The adoption of these new and revised SFRS(I) and SFRS(I) INT has no material effect on the amounts reported for the current or prior reporting periods.

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For the Period Ended 30 June 2018

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 2Q2018 (3 months)	Unaudited 2Q2017 (3 months)	Unaudited HY2018 (6 months)	Unaudited HY2017 (6 months)
EPS:				
(a) Basic	0.75 cents	0.62 cents	0.91 cents	0.73 cents
(b) Fully diluted basis	0.75 cents	0.62 cents	0.91 cents	0.72 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 reporting year.

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

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For the Period Ended 30 June 2018

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 2018	31 December 2017	30 June 2018	31 December 2017
Net asset value ("NAV") per ordinary share based on the total number of issued shares	13.9 cents	13.5 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 2018 and 31 December 2017.

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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 2Q2018, the Group registered a revenue of S\$30.8 million compared to S\$29.8 million during 2Q2017. For HY2018, the Group registered a revenue of S\$56.2 million compared to S\$55.1 million during HY2017.

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) increased by S\$3.6 million or 23.8% from S\$15.1 million during 2Q2017 to S\$18.7 million during 2Q2018 at the back of a more active property resale market. For HY2018, revenue from general segment increased by S\$5.6 million or 20.7% from S\$27.1 million during HY2017 to S\$32.7 million during HY2018.

Project segment

For 3 months ended, revenue from the project segment (where customers include architecture firms, property developers and construction companies) decreased by S\$2.5 million or 17.9% from S\$14.0 million during 2Q2017 to S\$11.5 million during 2Q2018. For HY2018, revenue from project segment decreased by S\$4.6 million or 17.2% from S\$26.8 million during HY2017 to S\$22.2 million during HY2018. The project segment continued to be affected by the slowdown of private sector construction activities since 2017.

Interest Income

This pertains to a loan of US\$1 million (equivalent to approximately S\$1.3 million) to an associate, Viet Ceramics International Joint Stock Company ("VCI"), to support their business expansion in Vietnam.

Other Gains

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.

For 2Q2017, other gains mainly comprised of fair value gain on derivative financial instruments of S\$0.4 million. For HY2017, other gains mainly comprised of foreign exchange adjustment gains of S\$0.1 million and government grant income, such as those from wages credit scheme and temporary employment credit of S\$0.1 million.

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 under 'Other Gains' or 'Other Losses'.

Other 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.

For 2Q2017, other losses mainly comprised of foreign exchange adjustments losses of S\$0.5 million. For HY2017, other losses mainly comprised of fair value losses on derivative financial instruments of S\$0.3 million.

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For the Period Ended 30 June 2018

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\$0.2 million or 1.0% from S\$17.5 million during 2Q2017 to S\$17.3 million during 2Q2018. For HY2018, cost of sales decreased by S\$0.3 million or 1.2% from S\$32.4 million during HY2017 to S\$32.1 million during HY2018.

The gross profit margin (based on revenue from sale of goods (excluding rental and other income) and cost of sales, without taking into account labour costs and overheads) of 42.7% for 2Q2018 (HY2018: 41.6%) has slightly improved as compared to 40.9% for 2Q2017 (HY2017: 39.9%).

Employee Benefits Expense

For 3 months ended, employee benefits expenses increased by S\$0.3 million or 6.4% from S\$4.5 million during 2Q2017 to S\$4.8 million during 2Q2018. For HY2018, employee benefits expenses increased by S\$0.5 million or 5.8% from S\$8.9 million during HY2017 to S\$9.4 million during HY2018. As at 30 June 2018, the Group had 343 employees (including directors) (30 June 2017: 324).

The increase was mainly due to annual salary increment with effect from July 2017, overtime expenses, changes in commission package and increase in headcount to cope with the increased volume of business of the Group.

Amortisation and Depreciation Expense

For 3 months ended, amortisation and depreciation expenses remain constant during 2Q2017 and 2Q2018 at S\$1.5 million.

For half year ended, amortisation and depreciation expenses remain constant during HY2017 and HY2018 at S\$3.0 million.

Impairment Losses

The impairment losses during 2Q2018 mainly comprised of allowance for impairment of inventories of S\$0.2 million and provision for doubtful debt of S\$0.1 million. For 2Q2017, the impairment losses mainly comprised of allowance for impairment of inventories and provision of doubtful debt for trade receivables of S\$0.4 million and S\$0.1 million respectively.

The management assesses the collectability of trade receivables regularly, considering various factors such as financial status of the Group's customers and age of trade debts. Impairment on specific trade receivables would be made if the chance of recovery is very low.

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

For 3 months ended, impairment losses decreased by S\$0.2 million or 35.3% from S\$0.5 million during 2Q2017 to S\$0.3 million during 2Q2018. For half year ended, impairment losses remain constant at S\$0.8 million during HY2017 and HY2018.

Finance Costs

For 3 months ended, finance costs increased by S\$0.1 million or 17.1% from S\$0.9 million during 2Q2017 to S\$1.0 million during 2Q2018. For HY2018, the finance costs increased by S\$0.3 million or 15.5% from S\$1.7 million during HY2017 to S\$2.0 million during HY2018. The increase in finance costs was mainly due to increase in interest rates.

HAFARY HOLDINGS LIMITED

For the Period Ended 30 June 2018

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

Other Expenses

For 3 months ended, other expenses decreased by S\$0.2 million or 5.5% from S\$2.7 million during 2Q2017 to S\$2.5 million during 2Q2018. For HY2018, other expenses had decreased by S\$0.6 million or 11.0% from S\$5.7 million during HY2017 to S\$5.1 million during HY2018.

The decrease in other expenses were mainly attributable to the cessation of rental of a warehousing space in Changi North Way in March 2017 and July 2017 as the Group relocate to the new warehouse owned by a subsidiary located at 18 Sungei Kadut Street 2 Singapore 729236 (World Furnishing Hub).

Share of Profit from an Equity-Accounted Associate

For 3 months ended, share of profit from associate, VCI, amounted to S\$0.4 million (2Q2017: S\$0.8 million). For HY2018, share of profit from associate, VCI, amounted to S\$0.8 million (HY2017: S\$1.3 million) under the backdrop of a 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.

For 3 months ended, share of losses from joint ventures amounted to S\$0.1 million (2Q2017 : Share of profit of S\$14,000). For HY2018, share of losses from joint ventures amounted to S\$0.3 million (HY2017: S\$0.2 million).

Profit Before Income Tax

For 3 months ended, profit before income tax increased by S\$0.8 million or 26.0% from S\$3.0 million during 2Q2017 to S\$3.8 million during 2Q2018. For HY2018, profit before income tax increased by S\$1.0 million or 27.5% from S\$3.5 million during HY2017 to S\$4.5 million during HY2018.

Excluding share of profits from associate and joint ventures amounting to S\$0.3 million (2Q2017: S\$0.8 million), profit before income tax generated from recurring activities was S\$3.5 million for 2Q2018 (2Q2017: S\$2.2 million). For HY2018, excluding share of profit from associate and joint venture amounting to S\$0.5 million (HY2017: S\$1.1 million), profit before income tax generated from recurring activities was S\$4.0 million (HY2017: S\$2.4 million).

The higher profit before income tax generated from recurring activities during 2Q2018 and HY2018 was largely due to the increase in gross profit and decrease in other expenses. These increase is partially offset by increase in employee benefits expenses and finance costs.

Other Comprehensive Income (Loss)

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 higher in 2Q2018 and HY2018 because of higher taxable profits.

HAFARY HOLDINGS LIMITED

For the Period Ended 30 June 2018

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

Non-Current Assets

Non-current assets decreased by S\$1.3 million or 1.0% from S\$135.4 million as at 31 December 2017 to S\$134.1 million as at 30 June 2018.

Property, plant and equipment decreased by S\$1.9 million or 1.8% from S\$111.2 million as at 31 December 2017 to S\$109.3 million as at 30 June 2018. These decreased is mainly due to depreciation expense amounting to S\$2.9 million which was partially offset by the addition of plant and equipment amounting to S\$1.0 million during the period.

Other asset (land use rights) pertains to leasehold land in Foshan, China.

The increase in investment in associate amounting to S\$0.9 million pertained to shares of profits amounting to S\$0.8 million from VCI and exchange differences on translating associate with foreign operation amounting of S\$0.1 million.

The decrease in investment in joint venture amounting to S\$0.2 million pertained to share of losses of S\$0.3 million and partially offset by exchange differences on translating joint venture with foreign operation amounting to S\$0.1 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 SMJ International Holdings Limited (Listed on SGX Catalyst) and a tile wholesale company in China.

Current Assets

Current assets increased by S\$4.8 million or 5.0% from S\$95.1 million as at 31 December 2017 to S\$99.9 million as at 30 June 2018.

The increase was mainly due to increase in inventories amounting to S\$3.0 million, trade and other receivables amounting to S\$0.7 million, increase in cash and cash equivalent amounting to S\$0.7 million and other assets by S\$0.4 million.

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

As at 30 June 2018, derivative financial assets amounting to S\$8,000 pertained to fair value gain on outstanding foreign currency forward contracts (31 December 2017: derivative financial liabilities of S\$0.2 million). 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.

Trade receivables turnover as at 30 June 2018 is 99 days compared to 102 days as at 31 December 2017. Inventory turnover day as at 30 June 2018 is 291 days compared to 273 days as at 31 December 2017.

Non-Current Liabilities

Non-current liabilities decreased by S\$1.7 million or 1.9% from S\$87.5 million as at 31 December 2017 to S\$85.8 million as at 30 June 2018. The decrease is due to repayment of loans during the period.

HAFARY HOLDINGS LIMITED

For the Period Ended 30 June 2018

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

Current Liabilities

Current liabilities increased by S\$3.6 million or 4.4% from S\$82.0 million as at 31 December 2017 to S\$85.6 million as at 30 June 2018.

The increase was mainly attributable to the increase in other financial liabilities by S\$3.7 million and trade and other payables by S\$0.8 million. The increase was partially offset by the decrease of other liabilities of S\$0.7 million and derivative financial liabilities of S\$0.2 million.

Total amount of trade payables and trust receipts and bills payable to banks was S\$34.7 million (31 December 2017: S\$32.1 million). The turnover of the aforesaid items (based on cost of sales) is 186 days as at 30 June 2018 compared to 171 days as at 31 December 2017.

The increase in other financial liabilities was mainly due to increase in trust receipts and bills payable to banks by S\$0.8 million and net of repayment of finance lease liabilities, bank loans and loan drawdown amounting to S\$2.9 million during the period.

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

Other Reserves

This pertain to foreign exchange difference on translating foreign operations.

HAFARY HOLDINGS LIMITED

For the Period Ended 30 June 2018

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

Cash Flows Review

2Q2018

Net cash flows from operating activities was S\$1.8 million due to operating cash flows before working capital changes of S\$5.9 million and net cash flows used in working capital of S\$3.6 million and income taxes paid of S\$0.5 million. The net cash flows used in working capital of S\$3.6 million was mainly attributable by increase in inventories, trade and other receivables and other assets by S\$2.1 million, S\$1.9 million and S\$1.1 million respectively together with decrease in derivative financial liabilities and other liabilities by S\$0.2 million and S\$0.3 million respectively. This was partially offset by the increase in provision of S\$0.2 million and increase in trade and other payables of S\$1.8 million.

Net cash flows used in investing activities amounting to S\$0.5 million for 2Q2018 was mainly attributable to cash outflow for purchase of property, plant and equipment.

Net cash flows used in financing activities amounting to S\$0.8 million for 2Q2018 was mainly attributable by the dividend paid to equity owners and non-controlling interests of S\$2.4 million, repayment of interest expenses of S\$1.0 million and repayment of bank loan and finance lease liabilities of S\$2.2 million.

This was partially offset by the following:

- a) Proceeds from new bank loan of S\$3.5 million; and
- b) Increase in trust receipts and bills payable of S\$1.3 million.

As a result of the above, there was a net increase of S\$0.5 million in cash and cash equivalents for 2Q2018. Cash and cash equivalents as at 30 June 2018 was S\$6.7 million.

HY2018

Net cash flows from operating activities was S\$5.9 million due to operating cash flows before working capital changes of S\$8.9 million and net cash flows used in working capital of S\$2.3 million and income taxes paid of S\$0.7 million. The net cash flows used in working capital of S\$2.3 million was mainly attributable by increase in inventories and other assets of S\$3.0 million and S\$0.4 million respectively with decrease in derivative financial liabilities and other liabilities of S\$0.2 million and S\$0.7 million respectively. This was partially offset by decrease in trade and other receivables S\$0.6 million and increase in trade and other payables of S\$1.4 million.

Net cash flows used in investing activities amounting to S\$3.1 million for HY2018 was attributable to cash outflow for purchase of property, plant and equipment of S\$1.8 million and net movements in amount due from an associate of S\$1.3 million.

Net cash flows used in financing activities amounting to S\$2.2 million for HY2018 was mainly attributable by the dividend paid to equity owners and non-controlling interests of S\$2.4 million, repayment of interest expenses of S\$2.0 million, repayment of bank loans and finance lease liabilities of S\$3.3 million and decrease in trust receipt and bills payables of S\$0.8 million.

This was partially offset by the following:

- a) Proceeds from new bank loan of S\$6.2 million; and
- b) Increase in net amount due to related parties of S\$0.1 million.

As a result of the above, there was a net increase of S\$0.6 million in cash and cash equivalents for HY2018. Cash and cash equivalents as at 30 June 2018 was S\$6.7 million.

HAFARY HOLDINGS LIMITED

For the Period Ended 30 June 2018

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\$26 billion and S\$31 billion for 2018, with about 60% contributed by public sector demand. Key projects in 2018 includes institutional and other buildings such as healthcare facilities, and civil engineering works as well as a slate of smaller government projects that have been brought forward from prior year.

For 2019 and 2022, BCA expects construction demand to range between S\$26 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 Period Ended 30 June 2018

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

No dividend has been declared for 2Q2018.

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

No dividend has been declared for 2Q2017.

(c) Date Payable

Not applicable.

(d) Books closure date

Not applicable.

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

No dividend has been declared/recommended for 2Q2018.

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
	HY2018 S\$'000	HY2018 S\$'000
Purchases of goods:		
Malaysian Mosaics Sdn Bhd	4,425	-
MML Marketing Pte Ltd	863	-
	<hr/>	<hr/>

Purchases of goods:

Malaysian Mosaics Sdn Bhd

4,425

-

MML Marketing Pte Ltd

863

-

General mandate for IPT was renewed at the Annual General Meeting held on 13 April 2018.

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 2Q2018 and HY2018 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

3 August 2018