HAFARY

Holdings Limited Annual Report 2019

The Leading Building Material Supplier Since 1980

Contents

Corporate Profile

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

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

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

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

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

General

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

Project

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

Our Products

Tiles

Dedicated to bringing design ideas to life, we market and distribute a comprehensive range of premium tiles for selection. Backed by our strong sourcing and procurement network, we are able to offer quality products at competitive prices.

Stone

Luxury and innovation goes hand in hand with our selection of natural and exotic stone. Carefully sourced from around the world, we bring in new selections regularly to inspire and provide endless design possibilities.

Our Products

Wood

We offer a wide array of wood flooring solutions ranging from solid timber, engineered wood to vinyl. The product range meets current aesthetics and technical requirements to ensure the satisfaction of every customer.

Our Products

Sanitary Ware & Fittings

Aimed at making every bathroom a sanctuary, we supply durable and quality bathroom solutions to residential and commercial projects. We remain committed in delivering innovative solutions to meet our customers' preferences and requirements.

CEO's Statement

Low Kok Ann
Executive Director & CEO

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 2019 ("FY2019").

Group Revenue

In FY2019, the Group registered a revenue of S$108.4 million, a decrease of 9.6% from S$120.0 million in FY2018. This was due to lower revenues from the general and project segments against the previous financial year, which were affected by slowdowns in the property resale market and construction activities in the private project sector respectively.

The general segment brought in a revenue of S$61.6 million during FY2019, a decrease of S$9.3 million or 13.1% from S$70.9 million in FY2018. The project segment recorded a revenue of S$43.5 million in FY2019, a slight fall of S$2.6 million or 5.6% from S$46.1 million in FY2018.

Profit before income tax decreased marginally by S$0.4 million or 3.5% from S$12.0 million in FY2018 to S$11.6 million in FY2019.

Dividend Announcement

In view of the Group's continued profitability in FY2019, the Group declared and paid an interim dividend of 0.5 Singapore cent per ordinary share during the year. The Board of Directors is also proposing a final dividend of 0.5 Singapore cent per ordinary share for approval at the forthcoming Annual General Meeting.

Singapore Business

Marketing & Product Expansion

During the year, we continued to engage customers by showcasing the extraordinary works of distinguished European designers such as Antolini, Salvatori, Petra Antiqua and Kreoo, and keep us at the forefront of the industry by launching innovative new products such as Lapitec and FLORIM stone.

Both Lapitec and FLORIM stone are exquisite Italian-made surfaces that combine style and elegance with exceptional versatility and functionality. With the largest slab sizes available on the market, Lapitec is a sintered stone surface that unites aesthetic design appeal and the superior physical properties of porcelain with the beauty, workability, colours and typical finishes of natural stone. FLORIM stone combines nature with cutting-edge technology in porcelain stoneware sheets offered in a unique large size, along with a range of thicknesses and finishes to provide interior designers with creative flexibility and outstanding performance.

Refreshed Showroom

We made extensive renovations to our Tradehub 21 showroom from February to August 2019 to provide an enhanced customer experience. The redesigned showroom reflects a dynamic design concept that allows for unlimited possibilities in creativity with tiles, surfacing materials and interior design. With a brighter and more welcoming atmosphere, the showroom now has a seamless layout that encourages customer interaction with materials. A replica of an apartment is also included in the showroom to inspire and illustrate how various materials can be used for interiors. Located at Boon Lay Way, the Hafary Tradehub 21 showroom showcases a stylish range of tiles, mosaic, natural stone and vinyl flooring, demonstrating the versatility of the products in working with each other.

Bringing a New Approach to Design

As part of Singapore Design Week, homeowners looking to design their homes were connected with design professionals during the Millenia Walk Design PlaySpace campaign from 4 March to 14 April. Visitors were invited to "play" at any of the three immersive segments within the space, where everyday materials were reimagined into "play furniture" within places of rest and pockets of discovery, to enjoy a fun experiential approach to designing living spaces and pick up interior design ideas along the way. Hafary was delighted to be the material sponsor of the structure's surfaces.

Supporting Industry Talent

Hafary was also proud to sponsor the Home of the Year 2019 award that was presented at the Lookbox Design Awards ("LBDA") on 12 December. The LBDA honours the projects and people that are setting new benchmarks for home interior design in Singapore.

Collaborative Success

We continued our ongoing collaboration with IKEA in their inspiring interior mock-ups at IKEA Tampines and IKEA Alexandra, which enable customers to envision how our range of beautiful and practical surfacing materials could look in their homes.

Overseas Investments

Vietnam

In FY2019, the Group's associate, Viet Ceramics International Joint Stock Company ("VCI"), a tile retailing company in Vietnam, contributed profits amounting to S$4.0 million to the Group, a 28.9% spike from S$3.1 million in FY2018. This increase is due to VCI's improved financial performance against the backdrop of a positive economic climate and high level of construction activities in Vietnam.

VCI commemorated its 15th anniversary in October with a host of activities and events as a thank you to all its partners and customers who have made it possible to reach this significant milestone.

VCI also celebrated the opening of its eighth showroom on 26 December. Located on Phu Nhuan District, the new retail space will feature its latest floor and wall tiles collection, while providing architects, interior designers and consumers with a creative and informative resource that meets the most current needs of modern design, both for interiors and exteriors.

Myanmar

To facilitate the Group's penetration into emerging markets, we incorporated the joint venture company Hafary Myanmar Company Limited ("Hafary Myanmar") in 2018.

In January 2019, Hafary Myanmar held the grand opening of its flagship showroom in Bahan Township along Shwegondaing Road, which features over a thousand products in an impressive space covering 510 square metres. Housed in its very own eye-catching building, Hafary Myanmar quickly became the town's new popular landmark and attracted a high level of customer traffic in FY2019. Since its opening, the showroom has also become a social hub for designers, architects, and engineers and other professionals involved in the construction industry.

To ensure that staff are well-equipped with the knowledge to provide excellent customer service, training programmes in tiles were held in conjunction with our manufacturing partners to impart technical knowledge and insight into design trends to our Myanmar sales team.

Outlook

The Building and Construction Authority of Singapore ("BCA") has projected construction demand of between S$17.5 billion and S$20.5 billion for 2020, with about 62% contributed by public sector demand. From 2021 to 2024, 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 outbreak of COVID-19 has weakened global economic conditions. The Group remains committed to weathering the challenging business environment as market risks continue to stay elevated, and also to being alert to take on any opportunities that arise locally and overseas to grow our business. The Group has adopted measures with reference to guidelines issued by the Ministry of Health and other government agencies, as the safety of our customers and employees is of paramount importance to us. We will also closely monitor the effects to supply chain activities.

Sustainability

In keeping with our growth strategies to exploit digital platforms and technologies to boost and maintain customer engagement, we were thrilled to launch the Hafary app – the first mobile app for tiles and surfacing materials in Singapore!

Available for download on the Google Play Store and Apple App Store, the Hafary app simplifies home renovation projects by allowing users to browse more than 5,000 quality products including tiles, natural stone, mosaic, wood and sanitary ware and fittings, and add them to a project list, as well as manage their favourites according to rooms or space. Users of the app can also share their favourite products with friends, family and industry professionals. In addition, the app adds another level of convenience as customers are able to scan the QR code to add products to a project list or easily locate information on the nearest Hafary showroom.

Alongside our targeted marketing efforts with regular promotional offers and creative campaigns to showcase our products, we will continue to keep our finger on the pulse and connect with our customers in ways they like best, through social media and other digital platforms.

New Executive Appointments

We are very pleased to announce the executive promotions of two of our esteemed employees. On 1 March 2019, Jackson Tay was appointed to the position of Chief Operating Officer, responsible for the overall operations of the Group. Prior to his promotion, Mr Tay carried out the role of the Group's Operations Director from 2015 to this year. During his 10 years with the Group, Mr Tay has also held the prior positions of Finance Manager and Financial Controller.

Mandy Lee was promoted to the position of Financial Controller with effect from 1 March 2020. Ms Lee is responsible for the Group's finance and corporate functions, including financial reporting, internal controls, governance and regulatory compliance. Ms Lee joined the Group in 2015 as Assistant Finance Manager and became our Finance Manager in 2016.

We would like to warmly congratulate and welcome them into their new positions. We are confident that they will continue their important and recognised contributions as valuable assets to drive the Group forward.

In Appreciation

I would like to extend my heartfelt gratitude to my fellow Directors for their invaluable counsel and guidance. I would also like to sincerely thank all our stakeholders for their unstinting support and loyalty towards the Group as we weather these challenging times. Finally, I wish to extend my appreciation to our management and employees for their continued dedication and untiring diligence. We will continue to forge ahead by leveraging our well-established business foundation as we navigate the uncertainties of the current economic environment, and being versatile in adapting our corporate strategies towards continued stability and growth.

LOW KOK ANN
Executive Director & CEO

Board of Directors

Ong Beng Chye
Independent Non-Executive Chairman

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

Other present directorship:
Geo Energy Resources Limited
IPS Securex Holdings Limited
CWX Global Limited
ES Group (Holdings) Limited

Past directorship (Preceding three years):
Heatec Jietong Holdings Ltd.
Kitchen Culture Holdings Ltd.

Low Kok Ann
Executive Director and Chief Executive Officer

Mr Low Kok Ann was appointed as Executive Director 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 24 April 2019.

Other present directorship:
Oxley Holdings Limited
Aspen (Group) Holdings Limited (Alternate Director)

Past directorship (Preceding three years):
Artivision Technologies Ltd.
HG Metal Manufacturing Limited

Board of Directors

Cheah Yee Leng
Non-Independent Non-Executive Director

Ms Cheah Yee Leng was appointed as a Non-Independent Non-Executive Director of our Company on 6 March 2015. She holds a Bachelor of Economics Degree and Bachelor of Laws Degree from Monash University in Australia.

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

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

Other present directorship:
Hap Seng Consolidated Berhad
Hap Seng Plantations Holdings Berhad
Paos Holdings Berhad

Past directorship (Preceding three years):
NIL

Yong Teak Jan @ Yong Teck Jan
Non-Independent Non-Executive Director

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

He has more than 25 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, which trades and distributes ceramic tiles under the 'MML' brand name, one of Malaysia's leading brands in 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 24 April 2019. He has more than 20 years of experience in the banking and private equity/ venture capital industry, holding various positions within DBS Bank Group and Standard Chartered Bank. Between 2002 and 2007, Mr Tan was key executive officer with several listed entities, responsible for financial affairs, business matters, merger and acquisition and investment activities. He is currently a Partner/ Director of Providence Capital Management Pte Ltd, a private equity fund management and consultancy firm that he co-founded in 2007. Mr Tan graduated with a Degree in Bachelor of Science (Estate Management) (Honours) from the National University of Singapore in 1989.

Other present directorship:
NIL

Past directorship (Preceding three years):
Interplex Holdings Limited

Chow Wen Kwan Marcus
Independent Director

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

Other present directorship:
IAG Holdings Limited
ValueMax Group Limited
Versalink Holdings Limited

Past directorship (Preceding three years):
Healthbank Holdings Ltd.
(previously known as SMJ International Holdings Ltd.)
Katrina Group Ltd.
Rich Capital Holdings Limited
(previously known as Infinio Group Limited)

Key Management

Tay Eng Kiat Jackson
Chief Operating Officer & Company Secretary

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

Mr Tay has more than 17 years of experience in Accounts and Finance functions of various entities in the public and private sector.

Currently, Mr Tay is an Independent Director and the Member of Audit & Risk Committee of OUE Lippo Healthcare Limited, a company listed on the SGX Catalist. Mr Tay is also the Chairman and Independent Director of Sim Leisure Group Ltd, a company whose shares are listed and quoted on the Catalist Board of the SGX-ST. He was appointed as Non-Executive and Independent Director, Chairman of the Nominating Committee, Member of Audit & Risk Committee of Sapphire Corporation Limited, a company listed on the SGX main board.

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

Koh Yew Seng Mike
Director – Logistics

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

Goh Keng Boon Frank
Project Director

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

Cheong Ching Hing Simon
Business Development Director / HR Director

Mr Cheong joined our Group in 2010. He oversees the Marketing and Human Resources function and plays an active role in developing various business divisions. Mr Cheong has more than 16 years of experience in the tile industry. He graduated with a Diploma in Mechanical Engineering from Ngee Ann Polytechnic in 1991 and has a Diploma in Salesmanship from Managing & Marketing Sales Association (United Kingdom).

Tay Chye Heng Stephen
Public Project Director

Mr Tay joined our Group in 2011 to set up and lead the Public Project Department specialising in the supply of building materials for use in Housing Development Board ("HDB") flats and government buildings.

Mr Tay has more than 30 years of experience and held various key positions in his past employments in the tile industry. He attained his General Certificate of Education 'O' Levels in 1974.

Lee Yee Fei Mandy
Financial Controller

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

Group Structure

HAFARY
HOLDINGS LIMITED
UEN: 200918637C

100%
HAFARY PTE LTD
UEN: 198001531R

Singapore

70%	**90%**	**100%**
SURFACE PROJECT PTE. LTD. UEN: 200500263N	SURFACE STONE PTE. LTD. UEN: 200906485D	WOOD CULTURE PTE. LTD. UEN: 201007442H
100%	**100%**	**46%**
HAFARY CENTRE PTE. LTD. UEN: 201026113W	MARBLE TRENDS PTE. LTD. UEN: 201309646E	WORLD FURNISHING HUB PTE. LTD. UEN: 201317854K (Subsidiary)
100%	**56%**	**51%**
HAFARY TRADEMARKS PTE. LTD. UEN: 201526416M	GRES UNIVERSAL PTE. LTD. UEN: 201610591C	HAFARY BALESTIER SHOWROOM PTE. LTD. UEN: 201603055M
33.33%	**50%**	**100%**
HAFARY MYANMAR INVESTMENT PTE. LTD. UEN: 201834571E (Joint Venture)	MELMER STONEWORKS PTE. LTD. UEN: 201216143E (Joint Venture)	HAFARY W+S PTE. LTD. UEN: 201834344K
100%	**100%**	**100%**
HAFARY VIETNAM PTE. LTD. UEN: 201120831H	HAFARY INTERNATIONAL PTE. LTD. UEN: 201305688M	HAFARY BUILDING MATERIALS PTE. LTD. UEN: 201724020R

Overseas

49%	**100%**	**50%**
VIET CERAMICS INTERNATIONAL JOINT STOCK COMPANY UEN: 0311028311 (Associate incorporated in Vietnam)	FOSHAN HAFARY TRADING CO., LTD UEN: 440600400022964 (Subsidiary incorporated in China)	GUANGDONG ITA ELEMENT BUILDING MATERIALS CO., LIMITED UEN: 91440604MA4WQTML60 (Joint venture incorporated in China)

Financial Highlights

For the Year	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Revenue - General	61,589	70,949	60,637	56,176	56,234
Revenue - Project	43,516	46,053	52,795	50,920	63,903
Revenue - Others	3,335	2,997	2,402	2,539	2,577
Total Revenue	108,440	119,999	115,834	109,635	122,714
Revenue - General (% of total revenue)	56.8%	59.1%	52.3%	51.2%	45.8%
Revenue - Project (% of total revenue)	40.1%	38.4%	45.6%	46.4%	52.1%
Earnings before interest, income taxes and depreciation (EBITDA)	23,734	21,741	19,497	16,510	19,737
EBITDA margin (%)	21.9%	18.1%	16.8%	15.1%	16.1%
Finance cost (i.e. Interest expense)	4,535	4,161	3,607	2,717	2,713
Profit before income tax	11,574	11,989	9,839	9,502	13,751
Profit before income tax margin (%)	10.7%	10.0%	8.5%	8.7%	11.2%
Net Profit	10,005	10,119	8,432	7,909	15,737
Net Profit margin (%)	9.2%	8.4%	7.3%	7.2%	12.8%
Profit after income taxes and non-controlling interest (PATNCI)	10,087	10,723	8,745	8,170	14,691
PATNCI margin (%)	9.3%	8.9%	7.5%	7.5%	12.0%

For the Year	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Non-current assets	139,867	131,863	135,393	133,162	111,494
Current assets	99,112	104,589	95,122	94,127	102,578
Total assets	238,979	236,452	230,515	227,289	214,072
Non-current liabilities	88,468	83,653	87,478	90,548	66,251
Current liabilities	79,524	86,606	81,959	79,014	93,023
Total liabilities	167,992	170,259	169,437	169,562	159,274
Total debt	144,664	143,367	144,953	143,697	123,641
Cash and cash equivalents	7,559	6,063	5,996	4,438	8,531
Net debt	137,105	137,304	138,957	139,259	115,110
Shareholders' equity	68,963	64,012	58,032	54,175	50,787
Total equity	70,987	66,193	61,078	57,727	54,798
Number of ordinary shares ('000)	430,550	430,550	430,550	429,000	429,000
Weighted average number of ordinary shares ('000) - Basic	430,550	430,550	429,769	429,000	429,000
- Diluted	430,550	430,550	429,769	430,262	429,000
Share price at year end (cents)	15.0	16.4	17.5	20.0	18.5
Market capitalisation as at year end date	64,583	70,610	75,346	85,800	79,365

Financial Highlights

For the Year Financial Ratios	2019	2018	2017	2016	2015
PROFITABILITY					
Revenue growth (%)	-9.6%	3.6%	5.7%	-10.7%	17.6%
PATNCI growth (%)	-5.9%	22.6%	7.0%	-44.4%	33.0%
Return on assets (%) (PATNCI/ Total assets)	4.2%	4.5%	3.8%	3.6%	6.9%
Return on equity (%) (PATNCI/ Average shareholders' equity)	15.2%	17.6%	15.6%	15.6%	32.3%
LIQUIDITY					
Current ratio (times)	1.2	1.2	1.2	1.2	1.1
Cash as per share (cents)	1.8	1.4	1.4	1.0	2.0
Net assets per share (cents)	16.0	14.9	13.5	12.6	11.8
LEVERAGE					
Net debt to equity ratio (times) (Net debt/ Shareholders' equity)	2.0	2.1	2.4	2.6	2.3
Interest cover (times) (EBITDA/ Finance cost)	5.2	5.2	5.4	6.1	7.3
INVESTORS' RATIO					
Earnings per share (cents) (Basic and fully diluted)	2.3	2.5	2.0	1.9	3.4
Gross dividend per share (cents) - Interim	0.5	0.5	1.0	1.0	1.0
Gross dividend per share (cents) - Final	0.5	0.5	0.5	-	-
Total gross dividend per share (cents) (DPS)	1.0	1.0	1.5	1.0	1.0
Gross dividend yield (%) based on year end share price	6.7%	6.1%	8.6%	5.0%	5.4%
Gross dividend payout (%) (Gross dividend/ Profit after tax attributable to shareholders)	42.7%	40.2%	49.1%	52.5%	29.2%

Financial Review

Statement of Comprehensive Income	FY2019 S$'000	FY2018 S$'000	Change S$'000	Change %
Revenue	108,440	119,999	(11,559)	(9.6)
Interest Income	96	472	(376)	(79.7)
Other Gains	283	601	(318)	(52.9)
Changes in Inventories of Goods Held for Resale	(2,002)	7,418	(9,420)	N.M.
Purchases and Related Costs	(57,416)	(76,144)	18,728	(24.6)
Employee Benefits Expense	(19,906)	(19,637)	(269)	1.4
Amortisation and Depreciation Expense	(7,721)	(6,063)	(1,658)	27.3
Impairment Losses	(1,485)	(1,907)	422	(22.1)
Other Losses	(61)	(420)	359	(85.5)
Finance Costs	(4,535)	(4,161)	(374)	9.0
Other Expenses	(8,244)	(10,734)	2,490	(23.2)
Share of Profit from An Equity-Accounted Associate	4,007	3,108	899	28.9
Share of Profit (Losses) from Equity-Accounted Joint Ventures	118	(543)	661	N.M.
Profit Before Income Tax	11,574	11,989	(415)	(3.5)
Income Tax Expense	(1,569)	(1,870)	301	(16.1)
Profit, Net of tax	10,005	10,119	(114)	(1.1)
Other Comprehensive Loss				
Items that may be reclassified subsequently to profit or loss				
Exchange Differences on Translating Foreign Operations, net of tax	(530)	(437)	(93)	21.3
Total Comprehensive Income for the Year, Net of Tax	9,475	9,682	(207)	(2.1)
Profit (Loss) Attributable to:				
- Owners of the Parent, Net of Tax	10,087	10,723	(636)	(5.9)
- Non-Controlling Interest, Net of Tax	(82)	(604)	522	(86.4)
	10,005	10,119	(114)	(1.1)
Total Comprehensive Income (Loss) Attributable to:				
- Owners of the Parent	9,557	10,286	(729)	(7.1)
- Non-Controlling Interests	(82)	(604)	522	(86.4)
	9,475	9,682	(207)	(2.1)

Revenue

During FY2019, the Group registered a revenue of S$108.4 million compared to S$120.0 million in FY2018. The decrease in revenue was mainly attributable to a fall in revenue contributed by the general segment, due to a slowdown of the property resale market. For FY2019, revenue from the general segment decreased by S$9.3 million or 13.1% from S$70.9 million during FY2018 to S$61.6 million. For FY2019, revenue from project segment decreased by S$2.6 million or 5.6% from S$46.1 million in FY2018 to S$43.5 million in FY2019. The project segment continued to be affected by the slowdown of private sector construction activities which began in 2017.

Interest Income

The interest income was derived mainly from a loan of US$1 million (equivalent to approximately S$1.4 million) to an associate, Viet Ceramics International Joint Stock Company ("VCI"), and US$1.5 million (equivalent to approximately S$2.1 million) to a joint venture, Guangdong ITA Element Building Materials Co., Limited ("ITA Element"), to support their business expansion in Vietnam and China respectively.

Other Gains

Other gains for FY2019 comprised mainly of foreign exchange adjustments gains of S$51,000, fair value gains on derivative financial instruments of S$12,000, compensation received of S$28,000, insurance claim of S$54,000, government grant of S$39,000 and fair value gains on quoted securities of S$0.1 million.

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

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

Other Losses

Other losses for FY2019 comprised mainly of losses due to the disposal of plant and equipment amounting to S$43,000.

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

Cost of Sales

Cost of sales comprised of purchases and related costs net of changes in inventories of finished goods for the respective financial periods. Cost of sales decreased by S$9.3 million or 13.5% from S$68.7 million during FY2018 to S$59.4 million during FY2019. The gross profit margin of 43.5% for FY2019 was a slight improvement, compared to 41.3% achieved in FY2018. The decrease in revenue led to a corresponding decrease in the cost of sales.

Employee Benefits Expense

Employee benefits expenses increased by S$0.3 million or 1.4% from S$19.6 million during FY2018 to S$19.9 million during FY2019. As at 31 December 2019, the Group had 359 employees (including directors) (31 December 2018: 348).

Amortisation and Depreciation Expenses

Amortisation and depreciation expenses increased by S$1.6 million or 27.3% from S$6.1 million during FY2018 to S$7.7 million during FY2019. The Group recorded depreciation of right-of-use assets of S$1.6 million in FY2019 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

Impairment losses decreased by S$0.4 million or 22.1% from S$1.9 million during FY2018 to S$1.5 million in FY2019. The decrease was mainly attributable to the decrease in allowance for impairment of inventories and bad debts on trade receivables.

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

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

Finance Costs

Finance costs increased by S$0.3 million or 9.0% from S$4.2 million in FY2018 to S$4.5 million in FY2019. The increase in finance costs was mainly due to an increase in interest rates and the 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

Other expenses decreased by S$2.5 million or 23.2% from S$10.7 million during FY2018 to S$8.2 million during FY2019. The decrease in other expenses were mainly attributable to the reversal of straight line operating lease expense amounting to S$2.0 million during FY2019 after adoption of SFRS(I) 16 with effect from 1 January 2019. Other major expense items include commission expense, property tax, upkeep of motor vehicles and utilities.

Share of Results from Equity-Accounted Associate and Joint Venture Companies

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

The share of profits from VCI amounted to S$4.0 million (FY2018: S$3.1 million).

The share of profits from MSPL was S$0.1 million (FY2018: Profit of S$0.1 million). The share of profits from ITA amounted to S$43,000 (FY2018: Loss of S$0.6 million). The share of loss from HMI amounted to S$31,000 and was minimal in FY2018.

Financial Review

Profit Before Tax

Profit before income tax ("PBIT") decreased by S$0.4 million or 3.5% from S$12.0 million in FY2018 to S$11.6 million in FY2019.

Excluding the share of results from the associate and joint venture companies amounting to S$4.1 million (FY2018: S$2.6 million), PBIT generated from recurring activities was S$7.5 million (FY2018: S$9.4 million).

The lower PBIT generated from recurring activities for FY2019 was largely due to the decrease in revenue.

Income Tax Expense

The current tax expense is based on the statutory tax rates of the respective countries that the Group operates in and takes into account non-deductible expenses and temporary differences. Income tax expense was lower in FY2019 due to lower taxable profits.

Statement of Financial Position	**2019 S$'000**	**2018 S$'000**	**Change S$'000**	**Change %**
Non-Current Assets:				
Property, Plant and Equipment	76,631	80,707	(4,076)	(5.1)
Other Assets, Non-Current	-	30,550	(30,550)	N.M.
Right-of-Use Assets	40,244	-	40,244	N.M.
Investments in an Associate	15,620	12,480	3,140	25.2
Investments in Joint Ventures	2,503	2,483	20	0.8
Investment Property	4,210	4,228	(18)	(0.4)
Other Financial Assets, Non-Current	522	423	99	23.4
Other Receivables, Non-Current	137	992	(855)	(86.2)
Current Assets:				
Inventories	54,178	57,192	(3,014)	(5.3)
Trade and Other Receivables, Current	31,905	34,666	(2,761)	(8.0)
Other Assets, Current	5,470	6,668	(1,198)	(18.0)
Cash and Cash Equivalents	7,559	6,063	1,496	24.7
Total Assets	238,979	236,452	2,527	1.1
Equity:				
Equity, Attributable to Owners of the Parent	68,963	64,012	4,951	7.7
Non-Controlling Interests	2,024	2,181	(157)	(7.2)
Total Equity	70,987	66,193	4,794	7.2
Non-Current Liabilities:				
Deferred Tax Liabilities	476	573	(97)	(16.9)
Other Financial Liabilities, Non-Current	77,673	83,080	(5,407)	(6.5)
Lease Liabilities, Non-Current	10,319	-	10,319	N.M.
Current Liabilities:				
Provision	636	891	(255)	(28.6)
Income Tax Payable	1,863	2,043	(180)	(8.8)
Trade and Other Payables	17,141	20,835	(3,694)	(17.7)
Derivative Financial Liabilities	23	35	(12)	(34.3)
Other Financial Liabilities, Current	55,311	60,287	(4,976)	(8.3)
Lease Liabilities, Current	1,361	-	1,361	N.M.
Other Liabilities	3,189	2,515	674	26.8
Total Liabilities	167,992	170,259	(2,267)	(1.3)
Total Equity and Liabilities	238,979	236,452	2,527	1.1

Non-Current Assets

Non-current assets increased by S$8.0 million or 6.1% from S$131.9 million as at 31 December 2018 to S$139.9 million as at 31 December 2019.

Property, plant and equipment decreased by S$4.1 million or 5.1% from S$80.7 million as at 31 December 2018 to S$76.6 million as at 31 December 2019. The decrease was mainly due to disposal and written-off of plant and equipment amounted to S$43,000 and depreciation expense amounting to S$4.9 million and foreign exchange adjustments of S$0.1 million which was partially offset by the addition of plant and equipment amounting to S$1.0 million during the period.

Other assets pertain to land use right of the Group's leasehold properties in Singapore and China. The group has made upfront payments for leasehold land which are used in the Group's warehousing and business operations. The carrying value of these leasehold land amounting to S$30.6 million were recognised as other assets as at 31 December 2018 and were reclassified to right-of-use assets on 1 January 2019 upon the adoption of SFRS(I) 16.

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$40.2 million.

The increase in investment in associate amounting to S$3.1 million pertained to shares of profits amounting to S$4.0 million from VCI during FY2019 and was partially offset by dividend received by the Group of S$0.7 million and exchange differences on translating associate with foreign operation amounting to S$0.2 million.

The increase in investment in joint ventures amounting to S$0.1 million pertained to shares of profit from joint ventures amounting to S$0.1 million.

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

Other financial assets pertain to the Group's investment in shares of Healthbank Holdings Limited (formerly known as SMJ International Holdings Limited)(Listed on SGX Catalist). The increase of S$0.1 million from S$0.4 million as at 31 December 2018 to S$0.5 million as at 31 December 2019 was due to fair value gain on other financial asset.

Other receivables pertain to reclassification of unquoted investment, upon shareholder withdrawal agreement signed on 20 December 2018. The decreased was arising from the purchase of inventories in FY2019.

Current Assets

Current assets decreased by S$5.5 million or 5.2% from S$104.6 million as at 31 December 2018 to S$99.1 million as at 31 December 2019. The decrease was mainly due to decrease in inventories, trade and other receivables and other assets amounting to S$3.0 million, S$2.8 million and S$1.2 million respectively. The decrease was partially offset by the increase in cash and cash equivalent amounting to S$1.5 million.

Inventory turnover as at 31 December 2019 is 333 days compared to 304 days as at 31 December 2018. Trade receivables turnover as at 31 December 2019 is 91 days compared to 94 days as at 31 December 2018.

Other assets comprised advance payment to suppliers, deposits to secure services and prepayments. The decrease in other assets was mainly due (i) the decrease in advance payment to suppliers by S$719,000 mainly due to lower committed purchases of goods as at the year end; (ii) the decrease in contract assets by S$432,000 due to lesser works completed but not billed as at the year end.

Non-Current Liabilities

Non-current liabilities increased by S$4.8 million or 5.8% from S$83.7 million as at 31 December 2018 to S$88.5 million as at 31 December 2019. The increase was mainly due to the recognition of lease liabilities of S$10.3 million as a results of adopting SFRS(I) 16 and partially offset with the repayment of loans during the period.

Current Liabilities

Current liabilities decreased by S$7.1 million or 8.2% from S$86.6 million as at 31 December 2018 to S$79.5 million as at 31 December 2019.

The decrease was mainly attributable to the decrease in trade and other payables of S$3.7 million, income tax payable of S$0.2 million, other financial liabilities of S$5.0 million and provision of S$0.3 million. The decrease was partially offset by the increase in other liabilities of S$0.7 million and lease liabilities of S$1.4 million.

Total amount of trade payables and trust receipts and bills payable to banks was S$21.1 million (31 December 2018: S$34.5 million). The turnover of the aforesaid items (based on cost of sales) is 130 days as at 31 December 2019 compared to 183 days as at 31 December 2018.

The decrease in other financial liabilities was mainly due to the decrease in trust receipts and bills payable to banks by S$9.7 million, repayment of bank loans by S$3.0 million and reclassification of finance lease liabilities S$0.2 million to lease liabilities on 1 January 2019 upon the adoption of SFRS(I) 16. This was partially offset by loan drawdown amounting to S$7.9 million during the period. The increase in other liabilities was mainly due to increase in advance payment received from customers.

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

Financial Review

Leasehold properties held by the Group	105 Eunos Avenue 3 Hafary Centre Singapore 409836	3 Changi North Street 1 Singapore 498824	54/56 Sungei Kadut Loop Singapore 729477	18C Sungei Kadut Street 4 Singapore 729066	18 Sungei Kadut Street 2 World Furnishing Hub Singapore 729236	North Fang Xun Road, Hecheng Street (Fuwan), Gaoming District, Foshan, Guangzhou, China	532 Balestier Road Singapore 329859
Description	6-storey light industrial building	2-storey warehouse	1-storey warehouse	Warehousing/ Production premises/ 2-storey ancillary building	7-storey industrial building	Warehouse and 5-storey dormitory	2-storey corner prewar shophouse
Purpose	Headquarters and main showroom	Main warehouse	Warehouse	Marble processing facility	Commercial and warehousing	Warehouse	Commercial
Tenure of land	Expiring 14 September 2039	Expiring 29 February 2059	Expiring 15 January 2025	Expiring 15 September 2025	Expiring 3 September 2043	Expiring 30 December 2050	Freehold
Area ('000 square feet) **- Land** **- Gross floor or net lettable area**	 54 130	 113 151	 105 69	 56 46	 107 296	 441 287	 2 3
Purchase price (S$'000)	9,800	10,000	2,502	1,430	8,650	10,000	4,050
Development and directly attributable costs (S$'000)	11,752	13,787	-	2,938	51,634	100	-
Carrying amount as at 31 December 2019 (S$'000)	16,199	20,253	739	2,091	52,867	7,882	4,210
Open market valuation (S$'000)	30,000	35,000	5,000	2,600	90,000	9,462	4,800

BOARD STATEMENT

Board Statement

We are pleased to present Hafary Holdings Limited's ("**Hafary**" or the "Company", and together with its subsidiaries, the "Group") annual Sustainability Report for our financial year ended 31 December 2019 ("**FY2019**").

The key material economic, environmental, social and governance ("**EESG**") factors for Hafary have been identified by the management. The board of directors of Hafary ("**Board**") oversees the management and monitoring of these factors and takes them into consideration in the determination of the company's strategic direction and policies. Sustainability is a part of Hafary's wider strategy to create long-term value for all our stakeholders.

With the availability of economic, environment, social and governance data, sustainability reporting has gained greater significance to investors. Far from being just an image building exercise, today it is widely accepted that good EESG practices contribute to the overall long-term success of the company and play an important part in the competition for talent and investment.

Businesses must be quick to adapt to key stakeholders' concerns, closing any potential gaps and capitalising on opportunities amid today's rapidly-changing business environment.

In defining our reporting content, we applied the Global Reporting Initiative ("**GRI**")'s principles by considering the Group's activities, impact and substantive expectations and interests of its stakeholders. We observed a total of four principles, namely materiality, stakeholder inclusiveness, sustainability index and completeness. For reporting quality, we observed the principles of balance, comparability, accuracy, timeliness, clarity and reliability.

We have relied on our internal source of information and verification mechanisms to ensure the accuracy of this report and no external assurance was obtained.

Reporting Period and Scope

This report is set out on a "comply or explain" basis in accordance with Listing Rule 711B and Practice Note 7.6 of the Singapore Exchange Securities Trading Ltd. ("**SGX-ST**") Listing Manual on Continuing Listing Obligations. Corresponding to GRI's emphasis on materiality, the report highlights the key economic, environmental, social and governance related initiatives carried out throughout the 12-month period, from 1 January to 31 December 2019.

Reporting Framework

Hafary has chosen the GRI framework as it is the most established international sustainability reporting standard and in respect of the extent to which such framework is applied, this report has been prepared in reference to the GRI Standards reporting guidelines, at Core level.

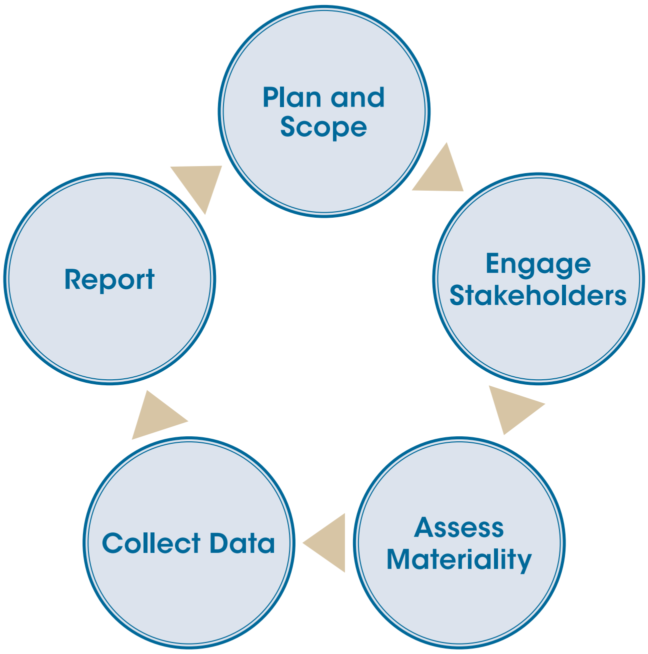
Feedback

We welcome feedback from our stakeholders with regards to our sustainability efforts as this enables us to improve our policies, systems and results. Please send your comments and suggestions to sustainability@hafary.com.sg.

31 March 2020

APPROACH TO SUSTAINABILITY

Sustainability Reporting Process



Sustainability Committee

The Group has in place a Sustainability Steering Committee which is led by the CEO and supported by the department heads from various functional divisions in the Group.

Stakeholder Engagement

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

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

Stakeholders	Hafary's policies	Key factors	Engagement channel
Customers	Maximise customers' satisfaction by keeping our product offerings up-to-date and providing a pleasant shopping experience.	• Quality products and services • Project Management, including timeline and execution • Availability of feedback platforms	• Customer showroom visits • Hafary's owned websites • Hafary's social media platforms e.g. Facebook • Feedback handling through email/phone calls
Employees	Develop our employees to their fullest potential through training and development. Provide them with a safe working environment and fair remuneration packages and benefits.	• Benefits and remuneration • Talent retention and career progression • Training and development • Employee safety and well-being • Anti-corruption and bribery	• On-boarding and orientation • Mobile chart groups • Annual Performance appraisals • Internal and external trainings
Local communities	Support to charitable causes through our CSR initiatives.	• Charitable contribution • Volunteering activities	• Corporate Social Responsibility ("CSR") programme • Community service events
Shareholders & Investors	Maximise the value of shareholders through strengthening our financial fundamentals.	• Group business strategy and developments • Financial performance • Risk management • Operational efficiency • Regulatory compliance • Corporate governance • Sustainability efforts	• Announcement via SGXNet • Company website • Annual General Meeting
Suppliers	Cultivate and maintain cordial relationships with our suppliers through adherence to trading norms.	• Fair payment terms • Timely payment as per contractual terms	• Supplier meetings, feedback and correspondents
Regulators & Government	Legal compliance and ethical practices are the core foundation of our businesses. Such culture is established and maintained through high standards of corporate governance and transparent reporting.	• Sustainability reporting • Compliance with laws and regulations as mandated by the relevant authorities • Good corporate governance & ethics, transparency and non-financial reporting • Anti-corruption and bribery	• Sustainability reporting • Ensure regulatory compliance across our businesses • Direct engage with authorities • Announcements via SGXNet • Annual report

Materiality Assessment

Our sustainability process begins with the identification of relevant aspects. Relevant aspects are then prioritised to identify material factors which are subject to validation. The end result of this process is a list of material factors disclosed in the Sustainability Report.

IDENTIFICATION
PRIORITISATION
VALIDATION
REVIEW

The Group has conducted a materiality assessment during the year. We engaged our employees from different departments, seeking our internal stakeholders' feedback for prioritisation of these topics. Going forward, materiality review will be conducted every year, incorporating inputs gathered from stakeholders' engagements.

In order to determine if an aspect is material, we assessed its potential impact on the economy, environment and society and its influence on the stakeholders. Applying the guidance from GRI, we have identified the following as our material aspects.

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

Material Factors	Impact To Stakeholders	GRI Disclosures	Read More In
Economic	All our internal and external stakeholders look to Hafary to deliver on financial performance, as well as our value-added contribution to the societies and communities we operate.	• Economic Performance *(201-1)* • Anti-corruption *(205-1, 205-3)*	Sustainability Report, Page 28
Environmental	We aim to minimise the negative impact of our business on the environment by in compliance to the applicable environmental laws and regulations.	• Environmental Compliance *(307-1)*	Sustainability Report, Page 28
Social	**Employees** Our people are one of our most valuable assets. Maintaining a safe and healthy workplace for our employees and contractors is critical to Group's continual operation and success. **Customers** To ensure the quality of our product delivered to our customers. Applies across to the business operations in Singapore and overseas. **Suppliers** To offer fair payment term and prompt payment as per contracts to our suppliers. **Local communities** The Group is dedicating to being a model corporate citizen who positively contributes and impacts the community.	• Diversity and Equal Opportunity *(401-1 & 405-1)* • Occupational Health and Safety *(403-2 & 403-5)* • Local Communities *(413-1)* • Socioeconomic compliance *(419-1)*	Sustainability Report, Pages 28 to 30
Governance	Hafary believes strong corporate governance is critical to the success of the Group and forms the foundation for the trust that our shareholders and stakeholders have placed on us to protect their interests. Other than the basis for regulatory compliance, we also believe strong corporate governance translates to more robust risk management systems and lead to better business performance.	None	Sustainability Report, Page 30

Sustainability Report

ECONOMIC

Economic Performance (GRI 201-1)

Hafary is committed to grow our customers and exceed our customers' expectations and providing them with competitive edge products by enhancing operational efficiency by incorporating effective use of technology, develop performance measures, communicate outcomes and results and implement necessary changes to provide fast and high quality services at low transactional costs.

For detailed financial results, please refer to the following sections in our Annual Report 2019:

- Financial Highlights, pages 18 to 19
- Financial Review, pages 20 to 24
- Financial Statements, pages 64 to 127

Anti Corruption (GRI 205-1, 205-3)

Hafary does not tolerate corruption in any form. The Company has in place a whistle-blowing policy which has been communicated to all employees. The Company's staff and external parties such as the Company's business associates may, in confidence, raise any concerns about possible improprieties in matters of financial reporting or other matters to the Management and/or the AC by submitting a whistle blowing report. 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.

There were no public cases and no incidents of corruption during the reporting period. Our goal is to maintain zero incident of corruption. We will regularly review policies on whistleblowing and anti-corruption.

ENVIRONMENTAL

Environmental Compliance (GRI 307-1)

In FY2019, there were no incidence of non-compliance with environmental and related laws and regulations resulting in significant fines or sanctions, and we target to maintain this track record.

SOCIAL

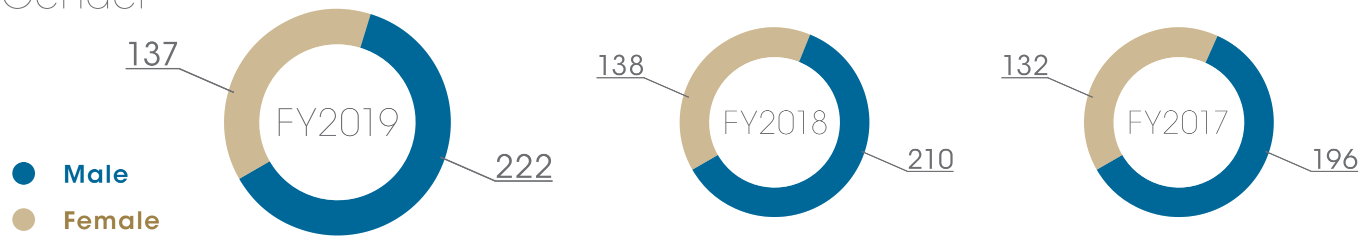
Non-Discrimination, Diversity and Equal Opportunity (GRI 401-1 & 405-1)

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

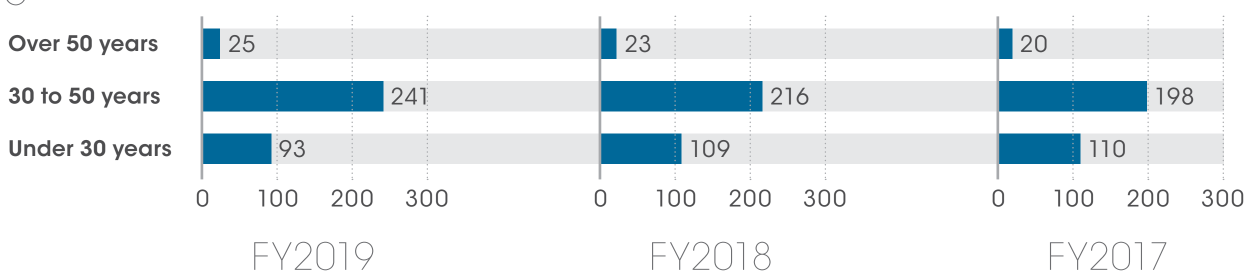
As a people-centric company, we are concerned with the wellbeing of our employees and implemented a number of staff welfare initiatives, such as annual dinner and festive meals. Our employees are entitled to medical and dental benefits and covered by various forms of insurance, such as group medical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

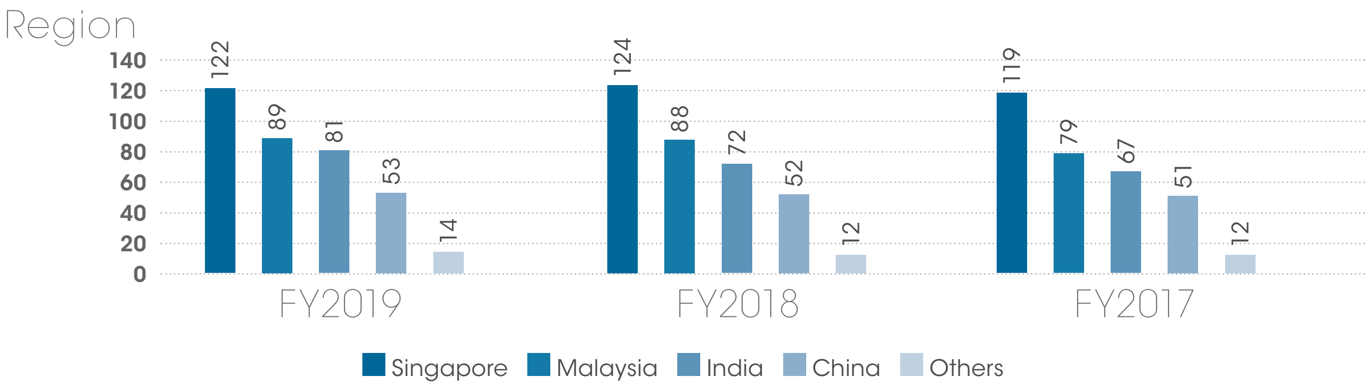
As of 31 December 2019, our workforce is composed of 359 (FY2018: 348, FY2017: 328) employees. Our monthly average turnover rate is 2.11%.

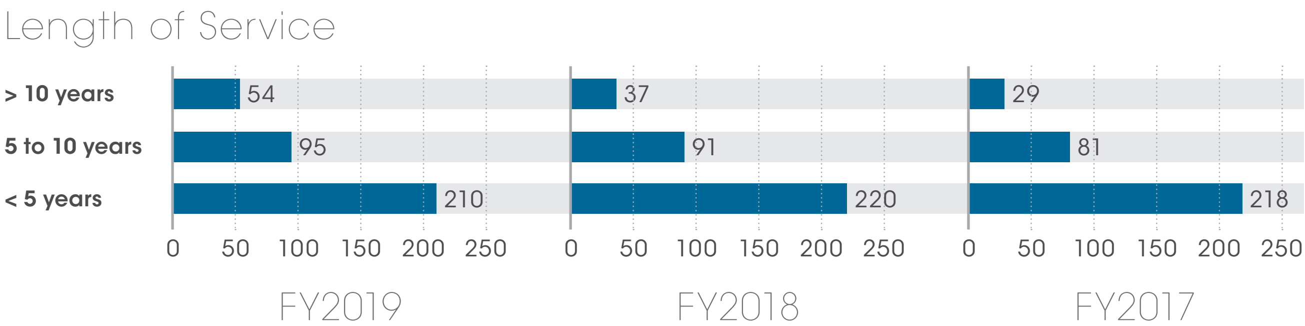
Gender



Age







Though most of our employees fall under the category of "less than 5 years of service", more than 30% of employees have been with us for more than 5 years, which illustrates a moderate turnover rate. Our average monthly turnover rate was 2.11% in FY2019 while it was 1.10% and 2.10% in FY2018 and FY2017, respectively. We continuously strive to further improve talent retention through fair remuneration and opportunities for employees to improve themselves.

Code of Conduct and Ethics

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

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

Similar to the past, there were no known incidents of non-compliance with our Code of Business Ethics and Conduct and non-discrimination in Hafary. We will ensure to maintain this record.

Occupational Health and Safety (GRI 403-2 & 403-5)

Hafary upholds high standards of a safe and conducive workplace for our tenants, customers and employees alike.

The appropriate safety measures and standard operating procedures put in place to all parties are clear what to do in case of emergency, and management teams are well-equipped to respond to such situation.

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

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

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

Certification

The Group achieved the following certifications which are valid during the reporting period. These well recognised standards provide us with the frameworks to manage risks associated with health and safety in our workplace.

- 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

Similar to the past, there were no fatal accidents and no occupational disease during the reporting period. We will continue to stress workplace safety at all times and maintain this record in the upcoming years.

Local Communities (GRI 413-1)

The Group believes in giving back to society. During the reporting period, financial assistance and support were rendered to the charities and organisations in the causes of:

- Children & Youth	- Community
- Disability	- Education
- Elderly	- Enrichment & Arts
- Environment	- Families
- Health	- Social Services
- Sports	- Women & Girls

We will continue to support the local communities in the upcoming years.

Socioeconomic Compliance (GRI 419-1)

We are committed to conducting our business activities in a lawful manner. All of our staff are reminded to ensure compliance with applicable economic, labour and social laws and regulations. The Group regularly review and monitor our policies and practices with regard to regulatory requirements.

Similar to the past, there were no material non-compliance with laws and regulations in the social and economic area reported in FY2019.

Our target is to ensure all allegation received are promptly addressed and to maintain zero incidents of non-compliance in the upcoming years.

GOVERNANCE

Corporate Governance

The Board and the Management of Hafary are committed to the best practices in corporate governance to ensure sustainability of the Group's operations. We believe that our constant drive for corporate excellence will allow us to establish a more transparent, accountable and equitable system, thereby increasing the value of the Company and its value to our shareholders. Please refer to the Annual Report 2019 pages 34 to 54 for details of the Group's Corporate Governance Statement.

The Company has complied substantially with the requirements with Code of Corporate Governance and will continue to review its practices on an ongoing basis.

Enterprise Risk Management

The Directors recognise that they have overall responsibility to ensure proper financial reporting for the Group and effectiveness of the Group's system of internal controls, including financial, operational, compliance and IT controls, and risk management policies and systems. The Audit Committee assists the Board in providing oversight of risk management in the Company.

The Company has in place an Enterprise Risk Management Framework. The implementation and maintenance of the Company's risk management framework is undertaken by the senior management team, which reports to the Audit Committee on strategic business risks as well as providing updates on the risk management activities of the Company's businesses and the Enterprise Risk Management implementation progress in the Company. Significant strategic risks identified are assessed, managed and monitored adequately within the Company's risk management framework. These strategic risks are also reviewed and refreshed to ensure relevant emerging risks are being considered and included for proper assessment, monitoring and reporting as appropriate.

The Group continually reviews and improves its business and operational activities to identify areas of significant business risk as well as taking appropriate measures to control and mitigate these risks. These include the implementation of safety, security and internal control measures and taking up appropriate insurance coverage. The Group's financial risk management programme seeks to minimise potential adverse effects of the unpredictability of financial markets on the Group's financial performance.

The outbreak of COVID-19 has weakened the global economic condition. The Group remains committed to weathering the challenging business environment as market risks remain elevated. The Group has adopted measures with reference to guidelines issue by the Ministry of Health and other government agencies, to protect our employees and customers against the virus and will also closely monitor its supply chain activities.

We will regularly review the ERM policies to ensure all relevant risks are identified, communicated and addressed timely.

Business Ethics

All of our staff are reminded of the importance of upholding the highest standards when it comes to business ethics. The Group regularly updates relevant staff with development in international and local regulations. Similar to FY2018, there were no significant fines or non-monetary sanctions for non-compliance with laws and regulations reported in FY2019.

Our target is to ensure all allegation received are promptly addressed and to maintain zero incidents of non-compliance.

GRI STANDARDS CONTENT INDEX

Disclosure no.	Disclosure	Annual report section and page no.	Remarks
General Disclosures (GRI 102: General Disclosures 2016)			
1. Organisational Profile			
102-1	Name of the organisation	Cover page	-
102-2	Activities, brands, products, and services	Corporate profile Pg. 1 Our products Pg. 2 to 9	The Group does not sell products or services that are the subject of stakeholder questions or public debate.
102-3	Location of headquarters	Corporate profile Pg. 1 Corporate information Pg. 33	-
102-4	Location of operations	Group structure Pg. 17 Note 3A of Financial statements Pg. 81	-
102-5	Ownership and legal form	Statistics of shareholdings Pg. 128 to 129 Group structure Pg. 17	-
102-6	Markets served	Corporate profile Pg. 1 Group structure Pg. 17 Note 4E of Financial statements Pg. 86	-
102-7	Scale of the organisation	Corporate profile Pg. 1 Sustainability report Pg. 28 to 29	-
102-8	Information on employees and other workers	Sustainability report Pg. 28 to 29	-
102-9	Supply chain	Corporate profile Pg. 1	-
102-10	Significant changes to the organisation and its supply chain	-	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	-	The Company's activities do not pose threats of serious or irreversible damage to the environment. The precautionary approach under Principal 15 of 'The Rio Declaration on Environment and Development' is not adopted.
102-12	External initiatives	Sustainability report Pg. 30	-
102-13	Membership of associations	-	Building and Construction Authority Singapore Business Federation.
2. Strategy			
102-14	Statement from senior decision-maker	CEO's statement Pg. 10 to 11 Sustainability report Pg. 25	-
3. Ethics and integrity			
102-16	Values, principles, standards, and norms of behavior	Sustainability report Pg. 25 to 30	-
4. Governance			
102-18	Governance structure	Corporate governance statement Pg. 34 to 54 Sustainability report Pg. 30	-
5. Stakeholder engagement			
102-40	List of stakeholder groups	Sustainability report Pg. 26	-
102-41	Collective bargaining agreements	-	No employee of the Group is covered by collective bargaining agreements.
102-42	Identifying and selecting stakeholders	Sustainability report Pg. 25 to 26	-
102-43	Approach to stakeholder engagement	Sustainability report Pg. 26	-
102-44	Key topics and concerns raised	Sustainability report Pg. 26	-

Disclosure no.	Disclosure	Annual report section and page no.	Remarks
6. Reporting practice			
102-45	Entities included in the consolidated financial statements	Financial statements Pg. 64 to 127 Group structure Pg. 17	-
102-46	Define report content and topic Boundaries	Sustainability report Pg. 25	-
102-47	List of material topics	Sustainability report Pg. 27	-
102-48	Restatements of information	-	No change in the preparation of sustainability report compare to previous financial year.
102-49	Changes in reporting	-	No change in the preparation of sustainability report compare to previous financial year.
102-50	Reporting period	Sustainability report Pg. 25	-
102-51	Date of most recent report	-	27 March 2019
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. 31 to 32	-
102-56	External assurance	Sustainability report Pg. 25	This report is not externally assured.
Material Topics			
GRI 201: Economic performance 2016			
201-1	Direct economic value generated and distributed	Sustainability report Pg. 28	
GRI 205: Anti-corruption 2016			
205-1	Operations assessed for risks related to corruption	Sustainability report Pg. 28	
205-3	Confirmed incidents of corruption and actions taken	Sustainability report Pg. 28	
GRI 307: Environmental compliance 2016			
307-1	Non-compliance with environmental laws and regulations	Sustainability report Pg. 28	
GRI 401: Employment 2016			
401-1	New employee hires and employee turnover	Sustainability report Pg. 28	
GRI 403: Occupational Health and Safety 2018			
403-2	Hazard identification, risk assessment, and incident investigation	Sustainability report Pg. 29 to 30	
403-5	Worker training on occupational health and safety	Sustainability report Pg. 29	
GRI 405: Diversity and equal opportunity 2016			
405-1	Diversity of governance bodies and employees	Sustainability report Pg. 28 to 29	
GRI 413: Local communities 2016			
413-1	Operations with local community engagement, impact assessments, and development programs	Sustainability report Pg. 30	
GRI 419: Socioeconomic compliance 2016			
419-1	Non-compliance with laws and regulations in the social and economic area	Sustainability report Pg. 30	

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 Group's corporate governance framework and practices of the Company with specific reference to the principles and provisions of the Code of Corporate Governance 2018 (the "Code"). Where the Company's practices vary from any provisions of the Code, the Company has provided appropriate explanations for the departures and measures that the Company has taken or intends to take for the departed practices. The Board will continue to take measures to improve compliance with the principles and provisions of the Code in the ensuing years.

PRINCIPLE 1 OF THE CODE:
THE BOARD'S CONDUCT OF AFFAIRS

The Company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the Company.

Provision 1.1 of the Code:
Directors are fiduciaries who act objectively in the best interests of the Company

The Board comprises eight (8) Directors as follows:

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

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, 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 has adopted a Code of Conduct and Ethics for Directors ("Code of Conduct") which serves to guide the Directors on the areas of ethical risk and sets a framework where integrity and accountability are paramount as well as ethical conduct expected from the Directors in the performance of their duties. Directors should strive to adhere to the Code of Conduct and where conflict of interest arises, the concerned Directors must recuse themselves from discussions and decisions involving the matter and abstain from voting on the matter.

The Board has established the Terms of Reference of the Board to promote high standards of corporate governance. The Terms of Reference of the Board outline high level duties and responsibilities of the Board and matters that are specifically reserved for the Board. It is a comprehensive reference document for Directors on matters relating to the Board and its processes, as well as role and responsibilities of the Board, its committees and management to ensuring effective communication and decisions.

The Board's role is to:

a) Oversees the management of the Group;
b) Set strategic objectives and ensure that the necessary financial, strategies and human resources are in place for the Group to meet its objectives;
c) Delegates the formulation of business policies and the day-to-day management of the Group to the Executive Director and CEO and management to ensure operations and performance of the Group are aligned with the strategies; and
d) Consider sustainability issues, e.g. environmental and social factors as part of its strategic formulation.

The Board provides shareholders with a balanced and clear assessment of the Group's performance, financial position and prospects on a quarterly basis. While the Board remains responsible for providing oversight in the preparation and presentation of the financial statements, it has delegated to the management the task of ensuring that the financial statements are drawn up and presented in compliance with the relevant provisions of the Singapore Companies' Act, Chapter 50 and the Singapore Financial Reporting Standards (International).

Provision 1.2 of the Code:
Directors' duties, induction, training and development

To enable the Directors to understand the Company's business as well as their Directorship duties and roles, the Directors receive regular updates on relevant new laws and regulations from the Company's relevant advisors.

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. Rule 210(5)(a) of the Listing Manual ("Listing Manual") of the Singapore Exchange Securities Trading Limited ("SGX-ST") requires a Director who has no prior experience as a Director of a company listed on the SGX-ST, to attend the training programmes conducted by the Singapore Institute of Directors ("SID") as prescribed in Practice Note 2.3 of the Listing Manual of the SGX-ST. Newly appointed Directors will receive a formal letter of appointment setting out his/her duties and responsibilities. There is no new appointment in the financial year ended 31 December 2019 ("FY2019").

The Directors have attended appropriate training on governance practices, enterprise risk management and relevant statutory and regulatory compliance issues. The Company encourages all Directors to receive regular training, particularly on new laws, regulations and commercial risk from time to time. The Directors keep themselves abreast with the changes and developments. Furthermore, the Company Secretary and outsourced secretarial agent highlight any changes and regulatory requirements from time to time to the Board. The External Auditor, on the other hand, brief the Board on changes to the Singapore Financial Reporting Standards (International) that affect the Group's financial statements during the period. The Board also receives regular briefings and updates on the businesses, operations and activities at the Board and Board Committees' meetings. When necessary or appropriate, the Board convenes informal meetings for the exchange of views while the Independent Non-Executive Directors conduct discussions amongst themselves from time to time without the presence of the management.

The Group keeps the Directors informed via electronic mail and briefing conducted during Board meetings on new laws, changes to the laws, regulatory compliance issues and financial reporting standards, changes to the financial reporting standards are monitored closely by the management.

Provision 1.3 of the Code:
Matters requiring Board's approval

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

(a) the appointment of Directors to the Board and senior management staff;

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

(c) any divestments to be undertaken by any of the Group's subsidiaries;

(d) major funding decisions, including share issuances;

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

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

(g) interested person transactions;

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

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

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

Provision 1.4 of the Code:
Board committees

Board Committees, namely Audit Committee ("AC"), Nominating Committee ("NC"), 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.

Board meetings are conducted on a quarterly basis and ad-hoc meetings are held whenever the Board's guidance or approval is required. Following the recent amendments to Rule 705 of the Listing Manual of the SGX-ST, which took effect from 7 February 2020, the Company will not be required to announce its financial statements for each of the first three quarters of its financial year. The Board has, after due deliberation and taking into consideration the compliance efforts required by the Group in connection with the announcing of financial statements for each of the first three quarters of its financial year, decided to adopt half-yearly reporting of its unaudited fiancial statements from FY2020. In view of this, Board meetings will be held on half-yearly basis from FY2020 and ad-hoc Board meetings will be held as and when 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.

Technology is effectively used in the Board and Board Committees' meetings and in communication with the Board, where the Directors may receive agenda and meeting materials online such as email and participate in meetings via audio or video conferencing. Management is often invited to be present and provide detailed explanation on any agenda at Board meetings.

Provision 1.5 of the Code:
Attendance and participant of the Directors and time commitment

Attendance of the Directors at scheduled meetings of the Board and Board Committees during the financial year ended 31 December 2019 ("FY2019") 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*	1*	1*
Ms Cheah Yee Leng	3	3*	1*	1*
Mr Yong Teak Jan @ Yong Teck Jan	4	4*	1*	1*
Mr Terrance Tan Kong Hwa	4	4	1	1
Mr Chow Wen Kwan Marcus	4	4	1	1

Note: *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.

Provision 1.6 of the Code:
Complete, adequate and timely information prior to make informed decisions

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.

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.

Provision 1.7 of the Code:
Separate and Independent access to management, Company Secretary and external advisers; Appointment and removal of the Company Secretary

The Directors have separate and independent access to the management, the Company Secretary and external advisers.

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.

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:

(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 or removal of the Company Secretary is subject to the approval of the Board as a whole.

PRINCIPLE 2 OF THE CODE: BOARD COMPOSITION AND GUIDANCE

The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the Company.

Provision 2.1 of the Code: Director Independent

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.

Provision 2.2 of the Code: Independent Directors make up a majority of the Board

Provision 2.3 of the Code: Non-Executive Directors make up a majority of the Board

The Company is not required to have at least half the Board as Independent Directors as the Chairman is an Independent Director.

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 of Corporate Governance, to confirm his independence. The Independent Directors shall disclose to the Board any relationships or circumstances which are likely to affect, or could appear to affect, his judgement. The independence of each Director is reviewed annually by NC. Based on the annual review of the independence of the Independent Directors according to the guidelines stated in the Code, the NC ascertained that all Independent Directors are independent.

As at the end of FY2019, Mr Chow Wen Kwan Marcus, Mr Ong Beng Chye and Mr Terrance Tan Kong Hwa have served on the Board beyond nine years from the date of their first appointment. The NC and the Board have conducted a rigorous review of their independence and contributions to the Board to determine if they still remained independent and carry out their duties objectively. Under such rigorous review, each Independent Director has confirmed that neither he nor any of his immediate family has any relationship or business dealings with a controlling shareholder, Director or key management personnel or their associates that would give rise to a conflict of interest or impairment of the Independent Director's independence. The NC and the Board are of the view that Mr Chow Wen Kwan Marcus, Mr Ong Beng Chye and Mr Terrance Tan Kong Hwa possess valuable experience and knowledge, as well as maintained their objectivity and independence at all times in the discharge of each of their duties as Director of the Company.

Provision 2.4 of the Code: Composition and size of the Board and Board Committees, Board diversity policy

The Company has in place the Board Diversity Policy with a view to achieving a sustainable and balanced development as the Company sees diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition and selection of new Board members, the Board strive to ensure that:

(a) All candidates are included for consideration during the search for new appointments to the Board regardless of gender, age, nationalities or ethnicity;

(b) There is appropriate mix of gender representation on the Board, taking into account the skills and experience the candidates can contribute; and

(c) External search consultants when looking for suitable candidates for appointment to the Board will be specifically directed to include diverse candidates and women candidates in particular.

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 Board currently comprises one women Director, namely, Ms Cheah Yee Leng. The NC is of the view that no individual or small group of individuals dominate the Board's decision-making process.

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

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

Provision 2.5 of the Code:
Independent Directors meet regularly without the presence of the Management

To facilitate a more effective check on the management, the Independent Directors meet at least once a year, each with the Group's 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.

PRINCIPLE 3 OF THE CODE:
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers it decision-making.

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

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

Provision 3.2 of the Code:
Division of responsibilities between the Chairman and the CEO

The roles of the Chairman and the CEO have been clearly separated, each having their own area of responsibilities. The Board establishes the division of responsibilities between the Chairman and the CEO.

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.

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.

Provision 3.3 of the Code: Lead Independent Director	The Company's Lead Independent Director is Mr Ong Beng Chye, the Group's Independent Non-Executive Chairman. The Independent Non-Executive Chairman coordinates sessions for the Independent Directors to meet without the presence of other Directors, if required.
PRINCIPLE 4 OF THE CODE: BOARD MEMBERSHIP	**The Board has a formal and transparent process for the appointment and re-appointment of Directors, taking into account the need for progressive renewal of the Board.**
Provision 4.1 of the Code: NC to recommend to the Board on relevant matters	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:
Provision 4.2 of the Code: Composition of the NC	(a) Review the Board and Board Committees structure, size, and composition annually; (b) Identify suitable candidate and review all nominations on appointment and re-appointment of Directors; (c) Determine annually whether or not a Director is independent, guided by the independent guidelines contained in the Code; (d) Develop a performance evaluation framework for the Board, the Committee and Individual Directors, and proposing objective performance criteria to assess the effectiveness of the Board, the Committee and Individual Directors; (e) Review and decide if a Director, who has multiple board representations on publicly listed companies, is able to and has been adequately carrying out his/her duties as a Director of the Company; (f) Review and recommend training and professional development programme for the Board; (g) Assess whether each director is able to and has been adequately carrying out his duties as Director of the Company; (h) Review of succession plans for Directors, CEO and key management personnel of the Company; and (i) Generally undertake such other functions and duties as may be required by the Board under the Code, statute or SGX Listing Rules (Mainboard).

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

The NC has recommended that the following Directors be put forward for re-election at the forthcoming AGM pursuant to Article 104 of the Company's Constitution:

Mr Low Kok Ann; and
Mr Chow Wen Kwan Marcus

The Board has accepted the NC's recommendations of the above re-elections of Directors and Mr Low Kok Ann, being eligible had offered himself for re-election at this AGM. Mr Chow Wen Kwan Marcus had indicated that he would not seek for re-election as Director at this AGM. His retirement from the Board will take effect upon the conclusion of the AGM. Please refer to "Board of Directors" section of the Annual Report for details and information of the above Directors.

Provision 4.3 of the Code:
Process for the selection, appointment and re-appointment of 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. 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; and

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

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

The Board of the Company does not comprise any alternate Director. No alternate Director was appointed during FY2019.

Provision 4.4 of the Code:
Circumstances affecting Directors' Independence

Having regard to the circumstance sets forth in Provision 2.1 of the Code, the Directors disclose their relationships with the Company, its related corporations, its substantial shareholders or its officers, if any, which may affect their independence, to the Board under the declaration of section 156 of the Singapore Companies Act, Chapter 50.

The NC is responsible for determining annually whether or not a Director is independent for purpose of the Code. 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 is required to 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 for the purpose of the Code.

Provisions 1.5 and 4.5 of the Code:
Multiple listed company Directorship and other principal commitments

When a Director has multiple listed company Directorship and other principal commitments, 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 FY2019, notwithstanding that they hold Directorships in other listed companies and have other principal commitments, and will continue to do so in FY2020.

The list of Directorships held by Directors presently or in the preceding three years in other listed companies, and other principal commitments are set out in the "Board of Director" section of the Annual Report.

PRINCIPLE 5 OF THE CODE: BOARD PERFORMANCE

The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each its Board Committees and individual Directors.

Provisions 5.1 and 5.2 of the Code: Assessment of effectiveness of the Board and Board committees and assessing the contribution by the Chairman and each Director

The NC is responsible in evaluating performance and effectiveness of the entire Board, the Board Committees and individual Director on a yearly basis. The performance evaluation framework is in the form of assessment questionnaires and the evaluation covers amongst other, Board and Board Committees' compositions, processes in managing the Group's performance, effectiveness of the Board, Board Committees as well as conduct, mix of skills, knowledge, competencies and contribution of each Director to the Company in discharging their function.

The questionnaires are completed by the members of the Board and Board Committees and each Director for self-assessment. The completed questionnaires are collated by the Company Secretary for deliberation by the NC. The NC led by its Chairman, reviews the outcome of the evaluation and recommends to the Board on areas for continuous improvement as well as for them to form the basis of recommending relevant Directors for re-election at the AGM. The Chairman will act on the results of the performance evaluation and in consultation with the NC, propose, where appropriate, new members to be appointed to the Board or seek the resignation of Directors.

During the FY2019, the NC met once and assessed the Board, Board Committees and individual Directors. The NC was satisfied with the outcome of the evaluations and both the NC and the Board are of the view that the Board has met its performance objectives for FY2019. No external facilitator was engaged in the performance assessment.

PRINCIPLE 6 OF THE CODE: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

The Board has a formal and transparent procedure for developing policies on Director and executive remuneration, and for fixing the remuneration packages of individual Directors and key management personnel. No Director should be involved in deciding his or her own remuneration.

Provision 6.2 of the Code: Composition of RC

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.

Provision 6.1 of the Code: 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) review the ongoing appropriateness and relevance of the Company's remuneration policy;

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

(g) work and liaise, as necessary, with all other Board Committees on any other matters connected with remuneration matters; and

(h) generally undertake such other functions and duties as may be required by the Board under the Code, statute or SGX Listing Rules (Mainboard).

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.

Provision 6.3 of the Code:
RC to consider and ensure are aspects of remuneration are fair

The RC is responsible for all aspects of remuneration, including termination terms.

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

The Executive Director and Chief Executive Officer 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 and Chief Executive Officer, the Company takes into account the performance of the Group and that of the Executive Director and Chief Executive Officer which is aligned with long term interest of the Group. The RC has reviewed and approved the service agreement of the Executive Director and Chief Executive Officer which is valid for 3 years. The Service Agreement entered into between the Executive Director/CEO and the Company was renewed on 1 February 2020. The RC is of the view that the Service tenure of the current service agreement is not excessively long and there are no onerous termination clauses.

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

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

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

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

Provision 6.4 of the Code:
Expert advice on remuneration

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. During FY2019, no external remuneration consultants were engaged.

PRINCIPLE 7 OF THE CODE:
LEVEL AND MIX OF REMUNERATION

The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the Company, taking into account the strategic objectives of the Company.

Provisions 7.1 and 7.3 of the Code:
Executive Directors and key management personnel's remuneration to be linked to corporate and individual performance and aligned with interests of shareholders; Remuneration is appropriate to provide good stewardship and promote long-term success of the Company

Remuneration of the Executive Director and Chief Executive Officer and Group's key management personnel comprise 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 FY2019, variable or performance related income/bonus made up between19% to 63% of the total remuneration of the Executive Director and Chief Executive Officer and each of the Group's key management personnel. The remuneration package is designed to enable the Company to stay competitive and allows the Company to better align executive compensation with shareholder value creation.

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

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

Long term incentive schemes are provided in the form of Hafary Performance Share Plan ("Hafary PSP") for eligible employee. Details of Hafary PSP are disclosed in the Statement by Directors and in this Report. During FY2019, no performance shares were granted, vested or cancelled under the Hafary PSP.

Provision 7.2 of the Code:
Remuneration of Non-Executive Directors dependent on contribution, effort, time spent and responsibilities

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

PRINCIPLE 8 OF THE CODE:
DISCLOSURE ON REMUNERATION

Principle 8: The Company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

Provision 8.1 of the Code:
Remuneration of Directors and key management personnel

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.

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

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.

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

A breakdown showing the band and mix of each Director's remuneration for the FY2019 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	–	37	63	100
Below S$250,000				
Datuk Edward Lee Ming Foo, JP	100	–	–	100
Mr Low See Ching	100	–	–	100
Ms Cheah Yee Leng	100	–	–	100
Mr Yong Teak Jan @ Yong Teck Jan	100	–	–	100
Mr Ong Beng Chye	100	–	–	100
Mr Terrance Tan Kong Hwa	100	–	–	100
Mr Chow Wen Kwan Marcus	100	–	–	100

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 FY2019 is as follows:

Remuneration band and name of key management personnel	Fixed salary (%)	Variable or performance-related bonus (%)	Total (%)
S$250,000 to S$499,999			
Mr Tay Eng Kiat Jackson	77	23	100
Mr Goh Keng Boon Frank	76	24	100
Below S$250,000			
Mr Koh Yew Seng Mike	77	23	100
Mr Cheong Ching Hing Simon	81	19	100
Mr Tay Chye Heng Stephen	81	19	100

The total remuneration paid to the top five key management personnel (who are not Directors or the CEO of the Company) for FY2019 was S$1,135,000.

Provision 8.2 of the Code: Remuneration disclosure of related employees

During FY2019, the Group did not have any employees with remuneration exceeding S$100,000, who (i) is a substantial shareholder of the Company; or (ii) is an immediate family member of a Director or the CEO, or a substantial shareholder of the Company.

Provision 8.3 of the Code:
Details of employee share schemes

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

Share awards (each an "Award") 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 the AGM held on 25 October 2013, and is administered by the Plan Committee, comprising the Remuneration Committee and the CEO authorised and appointed by the Board. The Hafary PSP shall be in force at the discretion of the Plan Committee, subject to a maximum period of 10 years commencing 25 October 2013.

Members of the Plan Committee:

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

Participants in the Hafary PSP will receive awards which represent the right to receive fully paid shares of the Company free of charge, upon satisfying certain Performance Conditions (as determined at the discretion of the Plan Committee) and provided that the relevant Participant has continued to be a Group Executive (as defined under the Hafary PSP) 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 FY2019, no Awards were granted, vested and cancelled under the Hafary PSP.

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

As at the date of this Annual Report, no Awards were released and no Awards were granted to the Independent Directors of the Company. No Awards 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.

ACCOUNTABILITY AND AUDIT

PRINCIPLE 9 OF THE CODE: RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the governance of risk and ensure that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the Company and its shareholders.

Provision 9.1 of the Code:
Board determines the nature and extent if the significant risks

The Board determines the nature and extend of the risks which the Company is willing to take in achieving its objectives and value creation. 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.

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.

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

(a) establishing the context;

(b) risk identification;

(c) risk prioritisation;

(d) risk mitigation;

(e) risk reporting; and

(f) risk updates.

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

The Group's Internal Auditor, BDO LLP, carry out internal audit on the system of internal controls and report the findings to the AC. The Group's 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.

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.

Provision 9.2 of the Code:
Assurance from CEO, CFO and other key management personnel

The Board also received assurance from the Executive Director and Chief Executive Officer, the Group's Chief Operating Officer ("COO") and the Group's Financial Controller that:

(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 Executive Director and Chief Executive Officer, the Group's Chief Operating Officer and Group's 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 2019 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.

PRINCIPLE 10 OF THE CODE:
AUDIT COMMITTEE

The Board has an Audit Committee ("AC") which discharges its duties objectively.

Provisions 10.1 and 10.2 of the Code:
Duties and composition of the AC

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.

The Board is of the opinion that at least 2 members of the AC, including the AC Chairman, possess the recent and related 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 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;
(b) review assurance from the Executive Director and Chief Executive Officer and the Group's Financial Controller on the financial records and financial statement and assurance from Executive Director and Chief Executive Officer and other key management personnel who are responsible on the adequacy and effective of the risk management and internal control systems;
(c) review the adequacy and effective of the Company's risk management and internal control in relation to financial reporting other financial-related risk and controls and report to the Board;
(d) 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;

(e) 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; 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;
(f) 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);
(g) 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;
(h) make recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the External Auditor;
(i) review any Interested Person Transactions falling within the scope of Chapter 9 of the Listing Manual;
(j) review and ensure proper disclosure and reporting in the annual report on related party transactions as required by the accounting standards;
(k) oversee the establishment and operation of the whistleblowing processing in the Company;
(l) review any potential conflicts of interest;
(m) undertake such other functions and duties 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
(n) generally undertake such other functions and duties as may be required by the Board under the Code of Corporate Governance 2018, statute or SGX Listing Rules (Mainboard) and Singapore Companies Act, Chapter 50.

The AC also has the power to conduct or authorise 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.

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 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.

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 FY2019 audit and non-audit services are S$244,000 and S$36,000 respectively.

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.

Provision 10.3 of the Code:
AC does not comprise former partner or Directors of the Company's auditing firm

None of the members of the AC was a former partner or Director of RSM Chio Lim LLP, the Company's existing auditing firm or auditing corporation within a period of two years commencing on the date of their ceasing to be a Partner or Director of the auditing firm or auditing corporation and none of the AC members have any financial interest in the auditing firm or auditing corporation.

Provision 10.4 of the Code:
Primary reporting line of the IA function is to AC; IA function has unfettered access to Company's documents, record, properties and personnel

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 primary reporting line of the Internal Auditor function is to AC, which also decides on the appointment, termination and remuneration of the head of the internal audit function. The internal audit function has unfettered access to all the Company's documents, records, properties and personnel, including the AC, and has appropriate standing within the Company. The AC approves the hiring, removal, evaluation and compensation of the Internal Auditor.

Provision 10.5 of the Code:
AC to meet auditors without the presence of management annually

The AC meets with the Group's Internal Auditor and External Auditor without the presence of the management at least once a year. Such meeting enables the Internal Auditor and External Auditor to raise any issue encountered in the course of their work directly to the AC. For FY2019, the AC met once with the Internal Auditor and External Auditor, each without presence of the management.

SIGNIFICANT ACCOUNTING MATTERS

In the review of the financial statements for FY2019, 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 FY2019. Please refer to Independent Auditor's Report in Financial Statements FY2019.

Key audit matters	How the matters were addressed by the AC
Recoverability of trade receivables	Net trade receivables amounted to S$26.5 million as at 31 December 2019. The AC considered management's approach, methodology and judgement pertaining to revenue recognition and the estimate of trade receivables impairment allowance. The AC also considered the observations and findings presented by the External Auditor with reference to the payment track records of trade debtors and adequacy of allowance for impairment of trade receivables. The above procedures provided the AC with the assurance and the AC concurred with the management's conclusion that allowance for impairment of doubtful debts is adequately made as at 31 December 2019 and the relating disclosures in the financial statements are appropriate.

Key audit matters	How the matters were addressed by the AC
Impairment allowance on inventories	Net inventories amounted to S$54.2 million as at 31 December 2019. The AC considered management's approach, methodology and judgement applied to the estimate of impairment allowance for slow-moving and obsolete inventories. The AC also considered the observation and findings presented by the External Auditor with reference to the adequacy of allowance for impairment of inventories. The above procedures provided the AC with the assurance and the AC concurred with the management's conclusion that allowance for impairment of inventories is adequately made as at 31 December 2019.

WHISTLE-BLOWING POLICY

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.

SHAREHOLDER RIGHTS AND ENGAGEMENT

PRINCIPLE 11 OF THE CODE: SHAREHOLDER RIGHTS AND CONDUCT OF GENERAL MEETINGS

The Company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the Company. The Company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

Provision 11.1 of the Code:
The Company provides shareholders with the opportunity to participate effectively and vote at general meetings

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

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.

Shareholders will also be briefed during the general meetings on voting procedures of the general meetings.

Provision 11.2 of the Code: Separate resolutions on each substantially separate issue	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. In situations where resolutions are inter-conditional, the Company will provide clear explanations.
Provision 11.3 of the Code: All Directors attend general meetings of shareholders	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.
Provision 11.4 of the Code: Company's Constitution allow for absentia voting of shareholders	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.
Provision 11.5 of the Code: Minutes of general meetings are published on Company's corporate website as soon as practicable	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. Voting at the general meeting will be by way of poll pursuant to Rule 730A(2) of the Listing Manual of the SGX-ST. 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.
Provision 11.6 of the Code: Dividend policy	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. Any dividend payments are clearly communicated to shareholders via announcements on SGXNet. During FY2019, the Company had declared and paid one interim dividend (tax exempt one-tier) totalling 0.50 Singapore cent per ordinary share. The Board has also proposed a final dividend of 0.50 Singapore cent per ordinary share for approval at the forthcoming AGM.
PRINCIPLE 12 OF THE CODE: ENGAGEMENT WITH SHAREHOLDERS	**The Company communicates regularly with its shareholders and facilities the participation of shareholders during general meeting and other dialogues to allow shareholders to communicate their views on various matters affecting the Company.**
Provision 12.1 of the Code: Company provides avenues for communication between the Board and shareholders and disclose in its annual report to steps taken to solicit and understand the views of shareholders	The Board is mindful of the obligation to provide shareholders with information on all major developments that affect the Group in accordance with the Listing Manual of SGX-ST and the Singapore 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

Provision 13.3 of the Code:
Corporate website to engage stakeholders

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).

Provisions 12.2 and 12.3 of the Code:
Board to maintain regular dialogue with shareholders;
Board to disclose the steps taken to solicit and understand shareholders' views

The Group has in place an investor relations policy, which is overseen by the Group's Chief Operating Officer. The management regularly communicates with the analysts and shareholders through email, telephone or face-to-face dialogues to update them on the latest corporate development and address their queries throughout the year.

The Company provided opportunities for communication with the shareholders, investors and other stakeholders during FY2019 as follows:

(a) Annual General Meeting; and

(b) Update on corporate developments via SGXNet

MANAGING STAKEHOLDERS RELATIONSHIPS

PRINCIPLE 13 OF THE CODE:
ENGAGEMENT WITH STAKEHOLDERS

The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the Company are served.

Provisions 13.1 and 13.2 of Code:
Engagement with material stakeholder groups

The Company provides contact details on its website at www.hafary.com.sg as the Company recognises the importance of stakeholder engagement to the long-term sustainability of its business. During FY2019, the Company received a number of telephone enquiries from shareholders and investors were attended promptly by the Company.

The Company has arrangements in place to identify and engage with its material stakeholder groups and to manage its relationships with such groups. Details of how these groups are identified and engaged in key area focus are disclosed in "Sustainability Report" section of the Annual Report. The Company's sustainability team can be contacted via email at (sustainability@hafary.com.sg).

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 FY2019.

INTERESTED PERSON TRANSACTIONS

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

The Group has a General Mandate for Interested Person Transactions which has been in force since 11 April 2016. This General Mandate will be renewed on the forthcoming AGM.

MATERIAL CONTRACTS

Pursuant to Rule 1207(8) of the Listing Manual of the SGX-ST, except as disclosed in Interested Person Transactions, there was no material contract or loan entered into between the Company and any of its subsidiaries involving interests of any Director or Controlling Shareholder during FY2019.

Table 1:

Name of Interested Person	Nature of relationship	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than $100,000)			
		Conducted under shareholders' mandate pursuant to Rule 920		Not conducted under shareholders' mandate pursuant to Rule 920	
		FY2019	FY2018	FY2019	FY2018
		S$'000	S$'000	S$'000	S$'000
Purchases from Malaysian Mosaic Sdn. Bhd. ("**MMSB**")	MMSB is a wholly-owned subsidiary of Hap Seng Consolidated Berhad.	3,871	9,324	–	–
Purchases from MML Marketing Pte. Ltd. ("**MML**")	MML is a wholly-owned subsidiary of MMSB	2,594	2,146	–	–
Sales to Malaysian Mosaic Sdn. Bhd.	MMSB is a wholly-owned subsidiary of Hap Seng Consolidated Berhad.	518	271	–	–

Contents

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 2019.

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 2019 and of the financial performance, changes in equity and cash flows of the group and changes in equity of the company for the reporting year ended on that date; and

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

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

2. *Directors*

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

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

3. *Directors' interests in shares and debentures*

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

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

The directors' interests as at 21 January 2020 were the same as those at the end of the reporting year.

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. *Hafary Performance Share Plan*

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

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

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

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

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

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

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

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

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

5. Hafary Performance Share Plan (cont'd)

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 2019**	**Aggregate performance shares granted since commencement of the Plan to 31 December 2019**	**Aggregate performance shares vested since commencement of the Plan to 31 December 2019**	**Aggregate performance shares cancelled / lapsed since commencement of the Plan to 31 December 2019**	**Aggregate performance shares outstanding at 31 December 2019**
Other participants	–	1,800,000	1,550,000	250,000	–

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

Except for the Hafary PSP as disclosed above, there were no unissued shares of the company or its related body corporates under shares awards granted by the company or its related body corporates as at 31 December 2019.

6. Options

During the reporting year, no option to take up unissued shares of the company or other body corporate in the group was granted and there were no shares issued by virtue of the exercise of an option to take up unissued shares.

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

7. Independent auditor

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

8. Report of Audit Committee

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

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

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

- Reviewed with the independent external auditor their audit plan;

- Reviewed with the independent external auditor their evaluation of the company's internal accounting controls that are relevant to their statutory audit, their report on the financial statements and the assistance given by management to them;

8. Report of Audit Committee (cont'd)

- 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 external auditor's objectivity and independence are safeguarded where the independent external auditor provides non-audit services.

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

9. Directors' opinion on the adequacy of internal controls

Based on the internal controls established and maintained by the company, work performed by the internal and external auditors, and reviews performed by management, other committees of the board and the board, the Audit Committee and the board are of the opinion that the company's internal controls, addressing financial, operational, compliance risks and information technology, and risk management system were adequate as at 31 December 2019.

10. Subsequent developments

There are no significant developments subsequent to the release of the preliminary financial statements of the group and of the company, as announced on 21 February 2020, which would materially affect the operating and financial performance of the group and of the company as of the date of this statement.

On behalf of the directors

Low Kok Ann	Low See Ching
Director	Director

31 March 2020

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 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the group, and statement of changes in equity of the company for the reporting year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the group and the financial position of the company as at 31 December 2019 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 37D for the breakdown in trade receivables and credit risk of the group respectively. Also refer to the Audit Committee section in the corporate governance report of the annual report for responses of the Audit Committee to the reported KAMs.

Key Audit Matter

The group's trade receivables totalled $26,465,000 as at the end of the reporting year. Any impairment of significant receivables could have material impact to the group's profit or loss.

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

Key audit matters (cont'd)

(1) Recoverability of trade receivables (cont'd)

How we addressed the matter in our audit

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

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

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

We assessed the adequacy of the disclosures in the financial statements.

(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. Also refer to the Audit Committee section in the corporate governance report of the annual report for responses of the Audit Committee to the reported KAMs.

Key Audit Matter

The group held inventories of $54,178,000 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.

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.

Other information (cont'd)

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

Responsibilities of management and directors for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

(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.

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

31 March 2020

Engagement partner - effective from year ended 31 December 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

YEAR ENDED 31 DECEMBER 2019

	Notes	2019 $'000	2018 $'000
Revenue	5	**108,440**	119,999
Interest income	6	**96**	472
Other gains	7	**283**	601
Changes in inventories of goods held for resale		**(2,002)**	7,418
Purchases and related costs		**(57,416)**	(76,144)
Employee benefits expense	8	**(19,906)**	(19,637)
Amortisation and depreciation expense	15, 16, 17, 18	**(7,721)**	(6,063)
Impairment losses	9	**(1,485)**	(1,907)
Other losses	7	**(61)**	(420)
Finance costs	10	**(4,535)**	(4,161)
Other expenses	11	**(8,244)**	(10,734)
Share of profit from an equity-accounted associate	20	**4,007**	3,108
Share of profit (losses) from equity-accounted joint ventures	21	**118**	(543)
Profit before income tax		**11,574**	11,989
Income tax expense	12	**(1,569)**	(1,870)
Profit, net of tax		**10,005**	10,119
Other comprehensive loss			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations, net of tax	28	**(530)**	(437)
Total comprehensive income for the year, net of tax		**9,475**	9,682
Profit (loss) attributable to:			
– Owners of the parent, net of tax		**10,087**	10,723
– Non-controlling interests, net of tax		**(82)**	(604)
		10,005	10,119
Total comprehensive income (loss) attributable to:			
– Owners of the parent		**9,557**	10,286
– Non-controlling interests		**(82)**	(604)
		9,475	9,682
		Cents	Cents
Earnings per share			
Basic and diluted	13	**2.34**	2.49

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

Statements of Financial Position

AS AT 31 DECEMBER 2019

	Notes	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
ASSETS					
Non-current assets					
Property, plant and equipment	15	**76,631**	80,707	**360**	454
Right-of-use assets	16	**40,244**	–	**–**	–
Other assets, non-current	17	**–**	30,550	**–**	–
Investment property	18	**4,210**	4,228	**–**	–
Investments in subsidiaries	19	**–**	–	**9,239**	9,239
Investment in an associate	20	**15,620**	12,480	**–**	–
Investments in joint ventures	21	**2,503**	2,483	**–**	–
Other financial assets, non-current	22	**522**	423	**522**	423
Other receivables, non-current	24	**137**	992	**–**	–
Total non-current assets		**139,867**	131,863	**10,121**	10,116
Current assets					
Inventories	23	**54,178**	57,192	**–**	–
Trade and other receivables, current	24	**31,905**	34,666	**29,531**	29,454
Other assets, current	25	**5,470**	6,668	**7**	9
Cash and cash equivalents	26	**7,559**	6,063	**60**	26
Total current assets		**99,112**	104,589	**29,598**	29,489
Total assets		**238,979**	236,452	**39,719**	39,605
EQUITY AND LIABILITIES					
Equity					
Share capital	27	**26,930**	26,930	**26,930**	26,930
Retained earnings		**43,549**	38,068	**2,413**	2,253
Foreign currency translation reserve	28	**(1,516)**	(986)	**–**	–
Equity, attributable to owners of the parent		**68,963**	64,012	**29,343**	29,183
Non-controlling interests		**2,024**	2,181	**–**	–
Total equity		**70,987**	66,193	**29,343**	29,183
Non-current liabilities					
Deferred tax liabilities	12	**476**	573	**–**	–
Other financial liabilities, non-current	29	**77,673**	83,080	**–**	193
Lease liabilities, non-current	30	**10,319**	–	**156**	–
Total non-current liabilities		**88,468**	83,653	**156**	193
Current liabilities					
Provision	31	**636**	891	**–**	–
Income tax payable		**1,863**	2,043	**5**	4
Trade and other payables	32	**17,141**	20,835	**10,178**	10,182
Derivative financial liabilities	34	**23**	35	**–**	–
Other financial liabilities, current	29	**55,311**	60,287	**–**	43
Lease liabilities, current	30	**1,361**	–	**37**	–
Other liabilities	33	**3,189**	2,515	**–**	–
Total current liabilities		**79,524**	86,606	**10,220**	10,229
Total liabilities		**167,992**	170,259	**10,376**	10,422
Total equity and liabilities		**238,979**	236,452	**39,719**	39,605

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

Statements of Changes in Equity

YEAR ENDED 31 DECEMBER 2019

Group:	Total equity $'000	Attributable to parent subtotal $'000	Share capital $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Non-controlling interests $'000
Current year:						
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 (Note 40)	**(300)**	**(300)**	**–**	**(300)**	**–**	**–**
At 1 January 2019, as restated	**65,893**	**63,712**	**26,930**	**37,768**	**(986)**	**2,181**
Movements in equity:						
Total comprehensive income (loss) for the year	**9,475**	**9,557**	**–**	**10,087**	**(530)**	**(82)**
Dividends paid (Note 14)	**(4,306)**	**(4,306)**	**–**	**(4,306)**	**–**	**–**
Dividends paid to non-controlling interests in subsidiaries	**(75)**	**–**	**–**	**–**	**–**	**(75)**
Closing balance at 31 December 2019	**70,987**	**68,963**	**26,930**	**43,549**	**(1,516)**	**2,024**
Previous year:						
Opening balance at 1 January 2018	61,078	58,032	26,930	31,651	(549)	3,046
Movements in equity:						
Total comprehensive income (loss) for the year	9,682	10,286	–	10,723	(437)	(604)
Dividends paid (Note 14)	(4,306)	(4,306)	–	(4,306)	–	–
Dividends paid to non-controlling interests in subsidiaries	(261)	–	–	–	–	(261)
Closing balance at 31 December 2018	66,193	64,012	26,930	38,068	(986)	2,181

Company:	Total equity $'000	Share capital $'000	Retained earnings $'000
Current year:			
Opening balance at 1 January 2019	**29,183**	**26,930**	**2,253**
Movements in equity:			
Total comprehensive income for the year	**4,466**	**–**	**4,466**
Dividends paid (Note 14)	**(4,306)**	**–**	**(4,306)**
Closing balance at 31 December 2019	**29,343**	**26,930**	**2,413**
Previous year:			
Opening balance at 1 January 2018	29,237	26,930	2,307
Movements in equity:			
Total comprehensive income for the year	4,252	–	4,252
Dividends paid (Note 14)	(4,306)	–	(4,306)
Closing balance at 31 December 2018	29,183	26,930	2,253

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

Consolidated Statement of Cash Flows

YEAR ENDED 31 DECEMBER 2019

	2019 $'000	2018 $'000
Cash flows from operating activities		
Profit before income tax	**11,574**	11,989
Adjustments for:		
Interest expense on borrowings	**4,167**	4,161
Interest expense on lease liabilities	**368**	–
Interest income	**(96)**	(472)
Amortisation of other assets, non-current	**–**	1,201
Depreciation of property, plant and equipment	**4,870**	4,843
Depreciation of investment property	**18**	19
Depreciation of right-of-use assets	**2,833**	–
Loss (gain) on disposal of plant and equipment	**43**	(31)
Fair value (gains) losses on other financial assets, net	**(99)**	163
Share of profit from an equity-accounted associate	**(4,007)**	(3,108)
Share of (profits) losses from equity-accounted joint ventures	**(118)**	543
Net effect of exchange rate changes in consolidating subsidiaries	**2**	(4)
Operating cash flows before changes in working capital	**19,555**	19,304
Inventories	**3,014**	(5,942)
Trade and other receivables	**3,877**	2,223
Other assets	**1,198**	(1,525)
Provision	**(255)**	238
Trade and other payables	**(3,730)**	1,517
Derivative financial liabilities	**(12)**	(194)
Other liabilities	**674**	1,070
Net cash flows from operations	**24,321**	16,691
Income taxes paid	**(1,846)**	(1,423)
Net cash flows from operating activities	**22,475**	15,268
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 26B)	**(1,033)**	(2,541)
Proceeds from disposal of plant and equipment	**69**	162
Investment in joint ventures	**–**	(5)
Net movements in amount due from an associate	**1,379**	(1,314)
Net movements in amount due from a joint venture	**(2,081)**	(1,412)
Dividend income from an associate	**700**	421
Dividend income from a joint venture	**25**	15
Interest income received	**506**	34
Net cash flows used in investing activities	**(435)**	(4,640)

Consolidated Statement of Cash Flows

YEAR ENDED 31 DECEMBER 2019

	2019 $'000	2018 $'000
Cash flows from financing activities		
Dividends paid to equity owners	**(4,306)**	(4,306)
Dividends paid to non-controlling interests	**(75)**	(261)
Net movements in amounts due to a director and a shareholder	**53**	126
Lease liabilities – principal portion paid	**(2,328)**	–
(Decrease) increase in trust receipts and bills payable	**(9,657)**	1,434
Repayment of finance lease liabilities	**–**	(487)
Increase from new borrowings	**7,900**	6,242
Decrease in other financial liabilities	**(7,907)**	(9,171)
Interest expense paid	**(4,201)**	(4,141)
Net cash flows used in financing activities	**(20,521)**	(10,564)
Net increase in cash and cash equivalents	**1,519**	64
Net effect of exchange rate changes on cash and cash equivalents	**(23)**	3
Cash and cash equivalents, beginning balance	**6,063**	5,996
Cash and cash equivalents, ending balance (Note 26)	**7,559**	6,063

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

1. General

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

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

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors. The directors have the power to amend and reissue the financial statements.

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.

Statement of compliance with financial reporting standards

These financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (International) ("SFRS(I)s") and the related Interpretations to SFRS(I) ("SFRS(I) INT") as issued by the Singapore Accounting Standards Council. These financial statements are in compliance with the provisions of the Companies Act, Chapter 50 and with SFRS(I)s issued by the Singapore Accounting Standards Council.

Accounting convention

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

Basis of preparation of the financial statements

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

1. General (cont'd)

Basis of presentation

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

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

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

2. Significant accounting policies and other explanatory information

2A. Significant accounting policies

Revenue recognition

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

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

2. *Significant accounting policies and other explanatory information (cont'd)*

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

Revenue recognition (cont'd)

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

Rental income – Rental income is recognised from operating leases as income on either a straight-line basis or another systematic basis which is used if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Interest income is recognised using the effective interest method.

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the conditions attaching to them will be complied with and that the grants will be received. Grants in recognition of specific expenses are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs that they are intended to compensate.

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.

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 borrowings and are recognised as an expense in the period in which they are incurred. Interest expense is calculated using the effective interest rate method.

Income tax

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

2. *Significant accounting policies and other explanatory information (cont'd)*

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

Foreign currency transactions

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

Translation of financial statements of other entities

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

Subsidiaries

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

In the reporting entity'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 amount 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.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Business combinations

A business combination is a transaction or other event which requires that the assets acquired and liabilities assumed constitute a business. It is accounted for by applying the acquisition method of accounting. There were no business combinations during the reporting year.

Associate

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

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

Joint arrangements – joint ventures

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

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

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Property, plant and equipment

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

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

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

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

Cost also includes acquisition cost 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.

Right-of-use assets and land use rights

The right-of-use assets are accounted and presented as if they were owned such as property, plant and equipment.

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.

Investment property

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee as a right-of-use asset under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) 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 using the treatment for property, plant and equipment, that is, at cost less any 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 professional valuers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The estimated useful life of freehold building is 20 years. Freehold land has unlimited useful life and therefore is not depreciated.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Leases of lessee

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A right-of-use asset is capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease is also recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. The right-of-use asset is depreciated over the earlier of the end of the useful life of the right-of-use asset or the end of the lease term and an interest expense on the recognised lease liability (included in finance costs). For short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office equipment) where an accounting policy choice exists under the lease standard, the lease payments are expensed to profit or loss as incurred on a straight-line basis over the remaining lease term.

Lessor

As a lessor the reporting entity classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and it is presented in its statement of financial position as a receivable at an amount equal to the net investment in the lease. For a finance lease the finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Lease payments from operating leases are recognised as income on either a straight-line basis or another systematic basis over the term of the lease.

Impairment of non-financial assets

The carrying amount of non-financial assets is reviewed at each end of the reporting year for indications of impairment and where an asset is impaired, it is written down through profit or loss to its estimated recoverable amount. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. When the fair value less costs of disposal method is used, any available recent market transactions are taken into consideration. When the value in use method is adopted, in assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each end of the reporting year, non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been measured, net of depreciation or amortisation, if no impairment loss had been recognised.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Inventories

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

Financial instruments

Recognition and derecognition of financial instruments:

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

Classification and measurement of financial assets:

1. Financial asset classified as measured at amortised cost: A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL"), that is (a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Typically trade and other receivables, bank and cash balances are classified in this category.

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

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

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

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Financial instruments (cont'd)

Classification and measurement of financial liabilities:

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

Cash and cash equivalents

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

Derivative financial instruments

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

Fair value measurement

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

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Fair value measurement (cont'd)

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

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

2B. Other explanatory information

Provisions

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

Segment reporting

The 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.

2. Significant accounting policies and other explanatory information (cont'd)

2C. Critical judgements, assumptions and estimation uncertainties

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

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

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

Assessment of impairment of right-of-use asset:
Significant judgement is applied by management when determining impairment of the right-of-use asset. Impairment is assessed for separable parts of leased buildings that have been or will be vacated in the near future. The impairment is sensitive to changes in estimated future expected sub-lease income and sub-lease period. Judgement is also involved when determining whether sub-lease contracts are financial or operational, when determining lease term for contracts that have extension or termination options as well as when determine the implicit discount rate. The carrying amount at the end of the reporting year was $11,000,000.

3. Related party relationships and transactions

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

3A. Members of a group

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

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

3B. Related party transactions

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

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

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

	Group	
	2019	2018
	$'000	$'000
Associate:		
Interest income	**(61)**	(46)
Joint ventures:		
Sale of goods	**(573)**	(510)
Rental income	**(431)**	(462)
Interest income	**(30)**	–
Purchases of goods	**3,863**	2,600
Disposal of plant and equipment	**13**	4
Receiving of services	**1,423**	1,283
Directors:		
Sale of goods	**(89)**	(74)
Other related parties:		
Sale of goods	**(634)**	(271)
Rental income	**(182)**	(162)
Purchases of goods	**6,465**	11,470
Rental expenses	**32**	37

3. Related party relationships and transactions (cont'd)

3C. Key management compensation

	Group 2019 $'000	Group 2018 $'000
Salaries and other short-term employee benefits	**2,167**	2,252

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

	Group 2019 $'000	Group 2018 $'000
Remuneration of director of the company	**667**	686
Fees to directors of the company	**231**	230

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 14 (2018: 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 2019 $'000	Group 2018 $'000
Joint ventures:		
Balance at beginning of the year	**1,667**	494
Loan to a joint venture	**2,069**	1,412
Interest income (Note 6)	**30**	–
Amounts paid out and settlement of liabilities on behalf of the joint ventures	**1,503**	1,030
Amounts paid in and settlement of liabilities on behalf of the group	**(1,358)**	(1,269)
Foreign exchange adjustments gains	**(49)**	–
Balance at end of the year	**3,862**	1,667
Presented in the statement of financial position as follows:		
Other receivable (Note 24)	**3,862**	1,712
Other payable (Note 32)	**–**	(45)
	3,862	1,667

3. Related party relationships and transactions (cont'd)

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

	Group	
	2019	2018
	$'000	$'000
Other receivable from associate:		
Balance at beginning of the year	**1,379**	–
Loan to an associate	**1,357**	2,681
Interest income (Note 6)	**61**	46
Foreign exchange adjustments gains	**13**	19
Repayment of loan and interest income	**(2,810)**	(1,367)
Balance at end of the year (Note 24)	**–**	1,379

	Group	
	2019	2018
	$'000	$'000
Other receivable from other related party:		
Balance at beginning of the year	**41**	–
Amounts paid out and settlement of liabilities on behalf of the other related party	**238**	165
Amounts paid in and settlement of liabilities on behalf of the group	**(270)**	(124)
Balance at end of the year (Note 24)	**9**	41

	Group	
	2019	2018
	$'000	$'000
Other payable to director:		
Balance at beginning of the year	**(2,739)**	(2,613)
Amounts paid in and settlement of liabilities on behalf of the director	**(53)**	(126)
Balance at end of the year (Note 32)	**(2,792)**	(2,739)

	Group	
	2019	2018
	$'000	$'000
Other payable to shareholder:		
Balance at beginning and end of the year (Note 32)	**(2,718)**	(2,718)

	Company	
	2019	2018
	$'000	$'000
Subsidiaries:		
Balance at beginning of the year	**19,145**	18,838
Amounts paid in and settlement of liabilities on behalf of the company	**(4,669)**	(3,999)
Dividend income	**4,306**	4,306
Balance at end of the year	**18,782**	19,145
Presented in the statement of financial position as follows:		
Other receivables (Note 24)	**28,182**	28,545
Other payables (Note 32)	**(9,400)**	(9,400)
	18,782	19,145

4. Financial information by operating segments

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

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

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

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

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

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

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

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

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").

4. Financial information by operating segments (cont'd)

4B. Profit or loss from continuing operations and reconciliations

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

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
2019:					
Total revenue by segment	**81,913**	**61,360**	**9,589**	**43**	**152,905**
Inter-segment sales	**(20,324)**	**(17,844)**	**(6,297)**	**–**	**(44,465)**
Total revenue	**61,589**	**43,516**	**3,292**	**43**	**108,440**
Recurring EBITDA	**14,232**	**2,605**	**2,825**	**43**	**19,705**
Amortisation and depreciation expense	**(5,632)**	**(1,341)**	**(748)**	**–**	**(7,721)**
Finance costs	**(3,521)**	**(340)**	**(674)**	**–**	**(4,535)**
Share of profit from an equity-accounted associate	**–**	**–**	**4,007**	**–**	**4,007**
Share of profit from equity-accounted joint ventures	**–**	**–**	**118**	**–**	**118**
ORBIT	**5,079**	**924**	**5,528**	**43**	**11,574**
Income tax expense					**(1,569)**
Profit, net of tax					**10,005**
2018:					
Total revenue by segment	97,107	64,044	3,243	82	164,476
Inter-segment sales	(26,158)	(17,991)	(328)	–	(44,477)
Total revenue	70,949	46,053	2,915	82	119,999
Recurring EBITDA	15,121	2,004	2,441	82	19,648
Amortisation and depreciation expense	(4,418)	(1,011)	(634)	–	(6,063)
Finance costs	(3,283)	(266)	(612)	–	(4,161)
Share of profit from an equity-accounted associate	–	–	3,108	–	3,108
Share of losses from equity- accounted joint ventures	–	–	(543)	–	(543)
ORBIT	7,420	727	3,760	82	11,989
Income tax expense					(1,870)
Profit, net of tax					10,119

4. Financial information by operating segments (cont'd)

4C. Assets, liabilities and reconciliations

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
2019:					
Segment assets	**150,429**	**66,217**	**22,333**	**–**	**238,979**
Segment liabilities	**116,527**	**46,404**	**2,722**	**–**	**165,653**
Deferred tax liabilities					**476**
Income tax payable					**1,863**
Total liabilities					**167,992**
2018:					
Segment assets	152,943	64,319	19,190	–	236,452
Segment liabilities	121,913	42,884	2,846	–	167,643
Deferred tax liabilities					573
Income tax payable					2,043
Total liabilities					170,259

4D. Other material items and reconciliations

	General $'000	Project $'000	Others $'000	Unallocated $'000	Group $'000
Impairment of assets:					
2019	**1,414**	**71**	**–**	**–**	**1,485**
2018	1,732	175	–	–	1,907
Expenditure for non-current assets:					
2019	**863**	**170**	**–**	**–**	**1,033**
2018	1,870	251	–	–	2,121

4E. Geographical information

	Revenue		Non-current assets	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Singapore	**101,085**	115,368	**112,855**	106,618
People's Republic of China	**596**	990	**10,870**	12,342
Socialist Republic of Vietnam	**24**	56	**15,620**	12,480
Republic of the Union of Myanmar	**1,378**	703	**–**	–
Republic of Indonesia	**467**	458	**–**	–
Cambodia	**1,604**	71	**–**	–
Malaysia	**625**	766	**–**	–
Maldives	**1,154**	356	**–**	–
Others	**1,507**	1,231	**–**	–
	108,440	119,999	**139,345**	131,440

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.

4. Financial information by operating segments (cont'd)

4F. Information about major customers

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

5. Revenue

A. Revenue classified by type of good or service

	Group	
	2019	**2018**
	$'000	**$'000**
Sale of goods	**101,744**	110,574
Revenue from installation services	**3,361**	6,428
Rental income (Note 36)	**3,277**	2,915
Other income	**58**	82
Total revenue	**108,440**	119,999

B. Revenue classified by duration of contract

	Group	
	2019	**2018**
	$'000	**$'000**
Short-term contracts	**105,079**	113,571
Long-term contracts	**3,361**	6,428
Total revenue	**108,440**	119,999

C. Revenue classified by timing of revenue recognition

	Group	
	2019	**2018**
	$'000	**$'000**
Point in time	**105,079**	113,571
Over time	**3,361**	6,428
Total revenue	**108,440**	119,999

6. Interest income

	Group	
	2019	**2018**
	$'000	**$'000**
Interest income from an associate (Note 3)	**61**	46
Interest income from a joint venture (Note 3)	**30**	–
Interest income from other receivables	**–**	421
Other interest income	**5**	5
Total interest income	**96**	472

7. Other gains and (other losses)

	Group 2019 $'000	Group 2018 $'000
Fair value gains on derivative financial instruments, net (Note 34)	**12**	194
Fair value gains (losses) on other financial assets, net (Note 22)	**99**	(163)
Foreign exchange adjustment gains (losses), net	**51**	(257)
(Loss) gain on disposal of plant and equipment	**(43)**	31
Government grants income	**40**	88
Insurance compensation	**54**	72
Other compensation income	**27**	208
Others	**(18)**	8
Net	**222**	181
Presented in profit or loss as:		
Other gains	**283**	601
Other losses	**(61)**	(420)
	222	181

8. Employee benefits expense

	Group 2019 $'000	Group 2018 $'000
Salaries, bonuses and other short-term benefits	**17,007**	16,878
Contributions to defined contribution plan	**2,899**	2,759
Total employee benefits expense	**19,906**	19,637

9. Impairment losses

	Group 2019 $'000	Group 2018 $'000
Allowance for impairment of inventories (Note 23)	**1,012**	1,259
Allowance for impairment of trade receivables:		
– Individually impaired (Note 24)	**419**	297
– Collectively impaired (Note 24)	**29**	162
Bad debts recovered – trade receivables	**(9)**	(16)
Bad debts written-off – trade receivables	**10**	197
Bad debts written-off – other receivables	**24**	8
Total impairment losses	**1,485**	1,907

10. Finance costs

	Group 2019 $'000	Group 2018 $'000
Interest expense on:		
– Bank loans	**3,507**	3,345
– Bill payables	**660**	798
– Lease liabilities	**368**	18
Total finance costs	**4,535**	4,161

11. Other expenses

The major components include the following:

	Group 2019 $'000	Group 2018 $'000
Commission	**909**	1,042
Hire of vehicles and machineries	**350**	486
Land rent	**–**	726
Rental of premises	**–**	1,471
Expense relating to short-term leases (Note 30)	**175**	–
Upkeep of motor vehicles	**674**	668

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

	Group 2019 $'000	Group 2018 $'000
Audit fees paid to:		
– Independent auditors of the company	**204**	198
– Other independent auditors	**40**	33
Non-audit fees paid to:		
– Independent auditors of the company	**36**	82

12. Income tax

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

	Group	
	2019	**2018**
	$'000	**$'000**
Current tax expense:		
Current tax expense	**1,718**	1,942
Over adjustments in respect of prior years	**(52)**	(65)
Subtotal	**1,666**	1,877
Deferred tax income:		
Deferred tax (income) expense	**(115)**	32
Under (over) adjustments in respect of prior years	**18**	(39)
Subtotal	**(97)**	(7)
Total income tax expense	**1,569**	1,870

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% (2018: 17%) to profit before income tax as a result of the following differences:

	Group	
	2019	**2018**
	$'000	**$'000**
Profit before income tax	**11,574**	11,989
Less:		
– Share of profit from an equity-accounted associate	**(4,007)**	(3,108)
– Share of (profit) losses from equity-accounted joint ventures	**(118)**	543
	7,449	9,424
Income tax expense at the above rate	**1,266**	1,602
Effect of different tax rates in different countries	**9**	28
Expenses not deductible for tax purposes	**457**	615
Tax exemption and rebates	**(129)**	(262)
Over adjustments to tax in respect of prior years	**(34)**	(104)
Others	**–**	(9)
Total income tax expense	**1,569**	1,870

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

12. Income tax (cont'd)

12B. Deferred tax income recognised in profit or loss

	Group	
	2019	2018
	$'000	$'000
Excess of net carrying amounts over tax values of property, plant and equipment	**25**	46
Provision	**43**	(40)
Deferred tax on inventories for unrealised profit	**5**	(13)
Tax loss carryforwards	**(165)**	–
Others	**(5)**	–
Total deferred tax income	**(97)**	(7)

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

	Group	
	2019	2018
	$'000	$'000
Excess of net carrying amounts over tax values of property, plant and equipment	**974**	949
Provision	**(108)**	(151)
Deferred tax on inventories for unrealised profit	**(220)**	(225)
Tax loss carryforwards	**(165)**	–
Others	**(5)**	–
Total deferred tax liabilities	**476**	573

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

13. Earnings per share

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

	Group	
	2019	2018
	$'000	$'000
Profit, net of tax attributable to owners of the parent	**10,087**	10,723

	Number of shares	
	2019	2018
	'000	'000
Weighted average number of equity shares:		
Basic	**430,550**	430,550

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

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

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

14. Dividends on equity shares

	Group and Company	
	2019	2018
	$'000	$'000
Final tax exempt (1-tier) dividend paid of 0.5 cent (2018: 0.5 cent) per share	**2,153**	2,153
First interim tax exempt (1-tier) dividends paid of 0.5 cent (2018: 0.5 cent) per share	**2,153**	2,153
Total dividends paid during the year	**4,306**	4,306

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

15. Property, plant and equipment

	Leasehold properties $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Group:				
Cost:				
At 1 January 2018	86,338	10,471	3,668	100,477
Additions	–	1,259	862	2,121
Disposals	–	(92)	(384)	(476)
Foreign exchange adjustments	(174)	(29)	(2)	(205)
At 31 December 2018	86,164	11,609	4,144	101,917
Additions	–	668	365	1,033
Disposals	–	(358)	(429)	(787)
Foreign exchange adjustments	(139)	(22)	(2)	(163)
At 31 December 2019	86,025	11,897	4,078	102,000
Accumulated depreciation:				
At 1 January 2018	8,863	5,549	2,335	16,747
Depreciation for the year	3,221	1,089	533	4,843
Disposals	–	(73)	(272)	(345)
Foreign exchange adjustments	(30)	(4)	(1)	(35)
At 31 December 2018	12,054	6,561	2,595	21,210
Depreciation for the year	3,215	1,106	549	4,870
Disposals	–	(296)	(379)	(675)
Foreign exchange adjustments	(29)	(5)	(2)	(36)
At 31 December 2019	15,240	7,366	2,763	25,369
Carrying amount:				
At 1 January 2018	77,475	4,922	1,333	83,730
At 31 December 2018	74,110	5,048	1,549	80,707
At 31 December 2019	**70,785**	**4,531**	**1,315**	**76,631**

15. Property, plant and equipment (cont'd)

	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Company:			
Cost:			
At 1 January 2018	2	334	336
Addition	–	470	470
Disposals	–	(334)	(334)
At 31 December 2018 and 31 December 2019	2	470	472
Accumulated depreciation:			
At 1 January 2018	2	167	169
Depreciation for the year	–	72	72
Disposals	–	(223)	(223)
At 31 December 2018	2	16	18
Depreciation for the year	–	94	94
At 31 December 2019	2	110	112
Carrying amount:			
At 1 January 2018	–	167	167
At 31 December 2018	–	454	454
At 31 December 2019	**–**	**360**	**360**

As at the end of the reporting year, the group's leasehold properties with carrying amount of $66,794,000 (2018: $69,804,000) are mortgaged for bank facilities (Note 29).

Certain motor vehicles are under finance lease agreements (Note 29) and lease liabilities (Note 30).

As at the end of the reporting year, cumulative borrowing cost capitalised as part of the cost of leasehold properties was $1,568,000 (2018: $1,568,000).

Subsequent to the end of the reporting year, the group received an amount of $1,798,000 from the Singapore Land Authority for overpayment of land premium for 18 Sungei Kadut Street 2, Singapore in prior years. The refund will be accounted for as a reduction of the cost of the property.

16. *Right-of-use assets*

	Leasehold land $'000	Premises $'000	Total $'000
Group:			
Cost:			
At 1 January 2019 – on adoption of SFRS(I) 16	13,032	3,641	16,673
Reclassification from land use rights (Notes 17 and 40)	36,264	–	36,264
At 1 January 2019 – as restated	49,296	3,641	52,937
Additions	–	839	839
Remeasurement	–	(59)	(59)
Foreign exchange adjustments	(127)	–	(127)
At 31 December 2019	49,169	4,421	53,590
Accumulated depreciation:			
At 1 January 2019 – on adoption of SFRS(I) 16	1,835	2,983	4,818
Reclassification from land use rights (Notes 17 and 40)	5,714	–	5,714
At 1 January 2019 – as restated	7,549	2,983	10,532
Depreciation for the year	2,348	485	2,833
Foreign exchange adjustments	(19)	–	(19)
At 31 December 2019	9,878	3,468	13,346
Carrying amount:			
At 1 January 2019	41,747	658	42,405
At 31 December 2019	39,291	953	40,244

As at the end of the reporting year, the group's land use rights with carrying amount of $25,355,000 (2018: $26,425,000) are mortgaged for bank facilities (Note 29). The land use rights relate to parcels of lands in Singapore and People's Republic of China.

16. Right-of-use assets (cont'd)

The above table includes land use rights. The details are as follows:

	Land use rights $'000
Group:	
Cost:	
At January 2019 – on adoption of SFRS(I) 16	–
Reclassification from land use rights (Notes 17 and 40)	36,264
At 1 January 2019 – as restated	36,264
Foreign exchange adjustments	(127)
At 31 December 2019	36,137
Accumulated amortisation:	
At January 2019 – on adoption of SFRS(I) 16	–
Reclassification from land use rights (Notes 17 and 40)	5,714
At 1 January 2019 – as restated	5,714
Amortisation for the year	1,198
Foreign exchange adjustments	(19)
At 31 December 2019	6,893
Carrying amount:	
At 1 January 2019	30,550
At 31 December 2019	29,244

Other information about the leasing activities relating to the right-of-use assets are summarised as follows:

	Leasehold land	Premises
Number of right-of-use assets	6	4
Remaining term – range (years)	5.1 to 39.2	0.4 to 3.0
Remaining term – average (years)	18.3	1.8

Leasehold land

The group has made upfront payments for five parcels of leasehold land in Singapore and People's Republic of China, which are used in the group's warehousing and business operations.

Operating lease payments are for rentals payable for the group's leasehold land. The leases from JTC Corporation are under a non-cancellable operating leases which are from fourteen to forty-seven years. The annual land rent payable is subject to annual revision.

Premises

The group leases warehouses and retail shops for the purpose of warehousing and retail operations.

Operating lease payments are for rentals payable for the group's premises are negotiated for terms of one to three years.

Management has elected to measure right-of-use assets at the amount of the lease liability on adoption (adjusted for any lease prepayments or accrued lease expenses, onerous lease provisions, and leased assets which have subsequently been sub-leased). For the leases management has elected to measure the right-of-use asset as if SFRS(I) 16 had been applied since the start of the lease, but using the incremental borrowing rate at 1 January 2019, with the difference between the right-of-use asset and the lease liability taken to retained earnings. The impact of adoption is disclosed in Note 40.

17. Other assets, non-current

	Land use rights $'000
Group:	
Cost:	
At 1 January 2018	36,422
Foreign exchange adjustments	(158)
At 31 December 2018	36,264
Reclassification to right-of-use assets on adoption of SFRS(I) 16 (Notes 16 and 40)	(36,264)
At 31 December 2019	–
Accumulated amortisation:	
At 1 January 2018	4,532
Amortisation for the year	1,201
Foreign exchange adjustments	(19)
At 31 December 2018	5,714
Reclassification to right-of-use assets on adoption of SFRS(I) 16 (Notes 16 and 40)	(5,714)
At 31 December 2019	–
Carrying amount:	
At 1 January 2018	31,890
At 31 December 2018	30,550
At 31 December 2019	–

18. Investment property

	Freehold land $'000	Freehold building $'000	Total $'000
Group:			
Cost:			
At 1 January 2018, 31 December 2018 and 31 December 2019	3,906	370	4,276
Accumulated depreciation:			
At 1 January 2018	–	29	29
Depreciation for the year	–	19	19
At 31 December 2018	–	48	48
Depreciation for the year	–	18	18
At 31 December 2019	–	66	66
Carrying amount:			
At 1 January 2018	3,906	341	4,247
At 31 December 2018	3,906	322	4,228
At 31 December 2019	**3,906**	**304**	**4,210**

18. Investment property (cont'd)

	Group 2019 $'000	Group 2018 $'000
Fair value at end of the year for disclosure purposes only	**4,800**	4,400
Rental income from investment property	**115**	113
Direct operating expenses (including repairs and maintenance) arising from investment property	**(12)**	(13)

There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

The investment property is leased out under operating leases. Also see Note 36 on operating lease income commitments. The management has not entered into contractual obligations for the maintenance or enhancement of the investment properties.

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

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

Asset:	Two-storey shophouse
Location:	532 Balestier Road, Singapore 329859
Tenure:	Freehold
Fair value:	$4,800,000 (2018: $4,400,000)
Fair value hierarchy:	Level 3 (2018: 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 $18,794 (2018: $17,228)
Sensitivity on management's estimates – 10% variation from estimate:	Impact – lower by $480,000; higher by $480,000 (2018: Impact – lower by $440,000; higher by $440,000)

The fair value of the investment property was measured by PREMAS Valuers & Property Consultants Pte. Ltd., a firm of independent professional valuers, in February 2020 based on the highest and best use method to reflect the actual market state and circumstances as of the end of the reporting year. The firm hold a recognised and relevant professional qualification with sufficient recent experience in the location and category of the investment property being valued.

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

19. Investments in subsidiaries

	Company	
	2019	2018
	$'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 2019 $'000	Cost 2018 $'000	Effective equity held 2019 %	Effective equity held 2018 %
Hafary Pte Ltd Singapore Importer and dealer of building materials	**9,239**	9,239	**100**	100
Held through Hafary Pte Ltd:				
Surface Project Pte. Ltd. Singapore Distribution and wholesale of building materials			**70**	70
Surface Stone Pte. Ltd. Singapore Dealer of stones for home furnishing			**90**	90
Wood Culture Pte. Ltd. Singapore Dealer of wood for home furnishing			**100**	100
Hafary Centre Pte. Ltd. Singapore Investment holding			**100**	100
Hafary Vietnam Pte. Ltd. Singapore Investment holding			**100**	100
Hafary International Pte. Ltd. Singapore Importing and distribution of building materials			**100**	100
Hafary Trademarks Pte. Ltd. Singapore Intellectual property holding and management			**100**	100
Marble Trends Pte. Ltd. Singapore Dealer of stones for home furnishing			**100**	100
World Furnishing Hub Pte. Ltd. [#a #b] Singapore Investment holding			**46**	46

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 2019 %	2018 %
Held through Hafary Pte Ltd (cont'd):		
Hafary Balestier Showroom Pte. Ltd. Singapore Investment holding	**51**	51
Gres Universal Pte. Ltd. Singapore Distribution and wholesale of building materials	**56**	56
Hafary Building Materials Pte. Ltd. Singapore Investment holding	**100**	100
Hafary W+S Pte. Ltd. Singapore (Incorporated on 8 October 2018) Storage and warehousing of furniture and related products	**100**	100
Held through Hafary International Pte. Ltd.:		
Foshan Hafary Trading Co., Limited People's Republic of China Importing, exporting and distribution of building materials	**100**	100

All the subsidiaries are audited by RSM Chio Lim LLP, a member firm of RSM International except for Foshan Hafary Trading Co., Limited is audited by SBA Stone Forest CPA Co., Ltd, an alliance firm of RSM Chio Lim LLP.

#a 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.

#b 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.

The carrying amounts of non-controlling interests are as follows:

	Group 2019 $'000	Group 2018 $'000
Surface Project Pte. Ltd.	**4,115**	3,927
World Furnishing Hub Pte. Ltd.	**(2,817)**	(2,017)
Other subsidiaries with immaterial non-controlling interests	**726**	271
Total	**2,024**	2,181

19. *Investments in subsidiaries (cont'd)*

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

Summarised statement of profit or loss and other comprehensive income:

	Surface Project Pte. Ltd.		World Furnishing Hub Pte. Ltd.	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Revenue	**16,404**	14,704	**4,119**	3,146
Profit (loss) before income tax	**1,093**	572	**(484)**	(1,266)
Income tax expense	**(126)**	(13)	**(92)**	(100)
Profit (loss), net of tax	**967**	559	**(576)**	(1,366)
Total comprehensive income (loss)	**967**	559	**(576)**	(1,366)
Total comprehensive income (loss) allocated to non-controlling interests	**290**	168	**(311)**	(738)
Dividends paid to non-controlling interests	**51**	241	**–**	–

Summarised statement of financial position:

<u>Current</u>				
Assets	**15,357**	13,857	**235**	306
Liabilities	**(2,015)**	(1,294)	**(12,973)**	(12,447)
Total current net assets (liabilities)	**13,342**	12,563	**(12,738)**	(12,141)
<u>Non-current</u>				
Assets	**592**	578	**56,102**	55,304
Liabilities	**(51)**	(51)	**(47,652)**	(46,803)
Total non-current net assets	**541**	527	**8,450**	8,501
Net assets (liabilities)	**13,883**	13,090	**(4,288)**	(3,640)

Summarised statement of cash flows:

Net cash flows from operating activities	**394**	1,322	**3,599**	1,676
Net cash flows (used in) from investing activities	**(107)**	6	**(31)**	(25)
Net cash flows used in financing activities	**(334)**	(882)	**(3,541)**	(1,646)

20. Investment in an associate

	Group	
	2019	**2018**
	$'000	**$'000**
Unquoted equity shares at cost	**2,061**	2,061
Goodwill at cost	**758**	758
Share of post-acquisition profit, net of dividends received	**12,801**	9,661
Carrying amount	**15,620**	12,480
Movements in carrying amount:		
At beginning of the year	**12,480**	9,784
Share of profit for the year	**4,007**	3,108
Dividends	**(700)**	(421)
Foreign exchange adjustments	**(167)**	9
At end of the year	**15,620**	12,480

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

The details of the associate are given as below:

Name of associate, country of incorporation, place of operations and principal activities	**Equity held by the Group**	
	2019	**2018**
	%	**%**
Viet Ceramics International Joint Stock Company ("VCI") #a Socialist Republic of Vietnam Importer and dealer of building materials	**49**	49

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

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

	Group	
	2019	**2018**
	$'000	**$'000**
Dividends received from the associate	**700**	421
Revenue	**56,942**	48,842
Profit for the year	**8,178**	6,343
Non-current assets	**3,280**	3,289
Current assets	**36,454**	31,757
Current liabilities	**(9,130)**	(11,251)

20. Investment in an associate (cont'd)

	Group 2019 $'000	Group 2018 $'000
Reconciliation:		
Net assets of the associate	**30,604**	23,795
Proportion of the group's interest in the associate	**14,996**	11,660
Goodwill on acquisition	**758**	758
Intangible assets on acquisition	**90**	90
Foreign exchange adjustments	**(224)**	(28)
	15,620	12,480

21. Investments in joint ventures

	Group 2019 $'000	Group 2018 $'000
Unquoted equity shares at cost	**3,195**	3,195
Share of post-acquisition losses, net of dividends	**(692)**	(712)
Carrying amount	**2,503**	2,483
Movements in carrying amount:		
At beginning of the year	**2,483**	3,106
Additions	**–**	5
Share of profits (losses) for the year	**118**	(543)
Dividends	**(25)**	(15)
Foreign exchange adjustments	**(73)**	(70)
At end of the year	**2,503**	2,483
Analysis of amounts denominated in non-functional currency:		
Chinese Renminbi	**2,239**	2,268

The details of the joint ventures are given as below:

Name of joint ventures, country of incorporation, place of operation and principal activities	Equity held by the Group 2019 %	Equity held by the Group 2018 %
Melmer Stoneworks Pte. Ltd. [#a] Singapore Cutting, shaping and finishing of stone	**50**	50
Guangdong ITA Element Building Materials Co., Limited [#b] People's Republic of China Production and distribution of tiles	**50**	50
Hafary Myanmar Investment Pte. Ltd. [#a] Singapore (Incorporated on 10 October 2018) Investment holding	**33**	33

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

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

21. Investments in joint ventures (cont'd)

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

There is joint venture that considered material to the reporting entity. 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	
	2019	**2018**
	$'000	**$'000**
Guangdong ITA Element Building Materials Co., Limited		
Revenue	**6,825**	3,975
Profits (losses) for the year	**43**	(630)
Non-current assets	**440**	452
Current assets	**8,223**	7,100
Non-current liabilities	**(2,050)**	–
Current liabilities	**(2,135)**	(3,015)
Reconciliation:		
Net assets of the joint venture	**4,478**	4,537
Proportion of the group's interest in the joint venture	**2,239**	2,268

22. Other financial assets, non-current

	Group and Company	
	2019	**2018**
	$'000	**$'000**
Quoted equity investment at fair value through profit or loss	**522**	423
Movements during the year:		
Fair value at beginning of the year	**423**	586
Increase (decrease) in fair value through profit or loss under other gains (losses) (Note 7)	**99**	(163)
Fair value at end of the year (Level 1)	**522**	423

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

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

There is no investment pledged as security for liabilities.

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

23. Inventories

	Group 2019 $'000	Group 2018 $'000
Goods held for resale	**54,178**	57,192
Inventories are stated after allowance as follow:		
Balance at beginning of the year	**5,704**	4,445
Charged to profit or loss included in impairment losses (Note 9)	**1,012**	1,259
Balance at end of the year	**6,716**	5,704

There are no inventories pledged as security for liabilities.

24. Trade and other receivables

	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
Trade receivables:				
Outside parties	**26,177**	28,543	**–**	–
Less: Allowance for impairment	**(1,595)**	(1,392)	**–**	–
Subsidiaries (Note 3)	**–**	–	**1,349**	909
Joint venture (Note 3)	**218**	54	**–**	–
Other related parties (Note 3)	**35**	244	**–**	–
Retention receivables on contracts	**1,630**	1,969	**–**	–
Subtotal	**26,465**	29,418	**1,349**	909
Other receivables:				
Outside parties [#a]	**1,280**	2,682	**–**	–
Subsidiaries (Note 3)	**–**	–	**28,182**	28,545
Joint ventures (Note 3) [#b]	**3,862**	1,712	**–**	–
Associate (Note 3) [#c]	**–**	1,379	**–**	–
Other related parties (Note 3)	**9**	41	**–**	–
Refundable deposits	**426**	426	**–**	–
Subtotal	**5,577**	6,240	**28,182**	28,545
Total trade and other receivables	**32,042**	35,658	**29,531**	29,454
Presented in the statement of financial position:				
Non-current	**137**	992	**–**	–
Current	**31,905**	34,666	**29,531**	29,454
	32,042	35,658	**29,531**	29,454
Movements in above allowance:				
Balance at beginning of the year	**1,392**	1,155	**–**	–
Additions – individually impaired (Note 9)	**419**	297	**–**	–
Additions – collectively impaired (Note 9)	**29**	162	**–**	–
Bad debts written-off	**(245)**	(222)	**–**	–
Balance at end of the year	**1,595**	1,392	**–**	–

24. Trade and other receivables (cont'd)

#a Included in other receivables is an amount of $1,103,000 (2018: $2,405,000) relates to the group entered into a shareholder withdrawal agreement with the shareholder of Investee Company to withdraw from the group's investment in the Investee Company. The full sum invested by the group into the Investee Company will be repaid within the next 2 years. In view of the above arrangements, the investment in Investee Company has been reclassified from unquoted investment to other receivables at amortised cost as at 31 December 2018.

#b Included in other receivables is a loan to a joint venture amounting to $2,050,000 (2018: Nil) which is unsecured, bears interest at 4.0% (2018: Nil) per annum and repayable on demand. The remaining balance of the loans to joint ventures are unsecured, interest-free and repayable on demand.

#c The loan to associate is unsecured and have been repaid in full in November 2019. Interest is fixed at 3.5% (2018: 3.5%) per annum.

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

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

(i) Concentration of credit risk

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

(ii) Credit risk exposure

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

- 95% (2018: 89%) of the group's trade receivables from Singapore.
- 5% (2018: 11%) of the group's trade receivables from other countries.

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

As part of the process of setting customer credit limits, different credit terms are used. The average credit period generally granted to trade receivable customers is about 60 days (2018: 60 days). But some customers take a longer period to settle the amounts.

24. Trade and other receivables (cont'd)

(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	
	2019	2018
	$'000	$'000
Trade receivables:		
1 to 30 days	**3,603**	3,892
31 to 60 days	**1,324**	1,433
61 to 90 days	**754**	1,146
Over 90 days	**6,145**	6,051
Total	**11,826**	12,522

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

	Group	
	2019	2018
	$'000	$'000
Trade receivables:		
Over 90 days	**1,404**	1,230

The allowance which is disclosed in the Note on trade receivables is based on individual accounts totalling $1,404,000 (2018: $1,230,000) of the group that are determined to be impaired at the end of the reporting year. These are not secured.

Expected credit losses

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

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

	Gross amount	Expected loss rate	Loss allowance
	$'000	%	$'000
Group:			
2019:			
Current	**13,348**	**0.6**	**73**
1 to 30 days past due	**3,603**	**0.8**	**29**
31 to 60 days past due	**1,324**	**1.0**	**13**
61 to 90 days past due	**754**	**0.7**	**5**
Over 90 days past due	**4,741**	**1.5**	**71**
Total	**23,770**	**0.8**	**191**

24. Trade and other receivables (cont'd)

Expected credit losses (cont'd)

	Gross amount $'000	Expected loss rate %	Loss allowance $'000
Group:			
2018:			
Current	13,206	0.5	71
1 to 30 days past due	3,893	0.5	20
31 to 60 days past due	1,440	0.2	3
61 to 90 days past due	1,150	1.8	21
Over 90 days past due	5,831	0.8	47
Total	25,520	0.6	162

The loss allowance of $191,000 (2018: $162,000) for the group is included in the allowance for impairment of receivables amounting to $1,595,000 as at 31 December 2019 (2018: $1,392,000). There are no collateral held as security and other credit enhancements for the trade receivables held by the group and company.

The amounts are written-off when there are indications that there is no reasonable expectation of recovery or the failure of a debtor to make contractual payments over an extended period.

The other receivables at amortised cost shown above are subject to the expected credit losses model under the financial reporting standard on financial instruments. Other receivables are regarded as of low credit risk if they have a low risk of default and the debtor has a strong capacity to meet its contractual cash flow obligations in the near term. The methodology applied for impairment loss depends on whether there has been a significant increase in credit risk.

25. Other assets, current

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Advance payments to suppliers	**4,673**	5,392	**-**	–
Contract assets (Note 25A)	**462**	894	**-**	–
Prepayments	**149**	84	**7**	9
Deposits to secure services	**141**	219	**-**	–
Lease incentive	**45**	79	**-**	–
Total other assets	**5,470**	6,668	**7**	9

25A. Contract assets

	Group	
	2019 $'000	2018 $'000
Consideration for work completed but not billed	**462**	894

The movements in contract assets are as follows:

At beginning of the year	**894**	244
Cost incurred during the year on uncompleted contracts	**3,678**	3,345
Transfers to trade receivables	**(4,110)**	(2,695)
At the end of the year	**462**	894

25. Other assets, current (cont'd)

25A. Contract assets (cont'd)

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting year:

	Group	
	2019	2018
	$'000	$'000
Expected to be recognised as revenue within 1 year	**462**	894

The contract assets are for: entity's rights to consideration for work completed but not billed at the reporting date on the contracts; costs incurred to obtain or fulfil a contract with a customer; costs to obtain contracts with customers; pre-contract costs and setup costs; and the amount of amortisation and any impairment losses recognised in the reporting year. The contract assets are transferred to the receivables when the rights become unconditional. The contract liabilities primarily relate to the advance consideration received from customers for which transfer of control occurs, and therefore revenue is recognised. The entity recognises revenue for each respective performance obligation when control of the goods or service transfers to the customer.

26. Cash and cash equivalents

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Not restricted in use	**7,559**	6,063	**60**	26

The interest earning balances are not significant.

26A. Non-cash transactions

During the reporting year, there were acquisitions of property, plant and equipment of Nil (2018: $396,000) acquired by means of finance leases.

26B. Reconciliation of purchase of property, plant and equipment arising from investing activities

	Group	
	2019	2018
	$'000	$'000
Purchase of property, plant and equipment (Note 15)	**(1,033)**	(2,121)
Acquired by means of finance leases (Note 26A)	**-**	396
Decrease in other payables for purchase of non-current assets	**-**	(816)
	(1,033)	(2,541)

26. Cash and cash equivalents (cont'd)

26C. Reconciliation of liabilities arising from financing activities

	At beginning of the year $'000	Cash flows $'000	Non-cash changes $'000	At end of the year $'000
Group:				
2019:				
Long-term borrowings	**82,761**	**(5,088)**	**–**	**77,673**
Short-term borrowings	**59,887**	**(4,576)**	**–**	**55,311**
Lease liabilities	**719**	**(2,328)**	**13,289***	**11,680**
Total liabilities from financing activities	**143,367**	**(11,992)**	**13,289**	**144,664**
2018:				
Long-term borrowings	86,496	(3,735)	–	82,761
Short-term borrowings	57,647	2,240	–	59,887
Finance lease liabilities	810	(487)	396#	719
Total liabilities from financing activities	144,953	(1,982)	396	143,367

Acquisition of plant and equipment.
* Lease liabilities recognised due to adoption of SFRS(I) 16.

27. Share capital

	Number of shares issued '000	Share capital $'000
Ordinary shares of no par value:		
Balance at 1 January 2018, 31 December 2018 and 31 December 2019	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.

27. Share capital (cont'd)

Capital management (cont'd):

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	
	2019	**2018**
	$'000	**$'000**
Net debt:		
All current and non-current borrowings including leases	**144,664**	143,367
Less: Cash and cash equivalents	**(7,559)**	(6,063)
Net debt	**137,105**	137,304
Adjusted capital:		
Total equity	**70,987**	66,193
Debt-to-adjusted capital ratio	**193.1%**	207.4%

There was a favourable change with improved retained earnings.

28. Foreign currency translation reserve

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. This reserve is not available for cash dividends unless realised.

29. Other financial liabilities

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Non-current:				
With floating interest rates:				
Bank loan F (secured) (Note 29C)	**11,258**	12,117	**–**	–
Bank loan H (secured) (Note 29E)	**44,481**	46,744	**–**	–
Bank loan I (secured) (Note 29F)	**10,196**	11,159	**–**	–
Bank loan J (secured) (Note 29F)	**9,176**	10,044	**–**	–
Bank loan K (secured) (Note 29G)	**2,562**	2,697	**–**	–
Subtotal	**77,673**	82,761	**–**	–
With fixed interest rates:				
Finance lease liabilities (secured) (Note 29I)	**–**	319	**–**	193
Non-current, total	**77,673**	83,080	**–**	193
Current:				
With floating interest rates:				
Bank loan A (secured) (Note 29A)	**8,000**	7,750	**–**	–
Bank loan B (secured) (Note 29A)	**8,000**	8,000	**–**	–
Bank loan C (secured) (Note 29A)	**5,500**	3,500	**–**	–
Bank loan D (secured) (Note 29B)	**1,000**	–	**–**	–
Bank loan E (secured) (Note 29B)	**2,400**	500	**–**	–
Bank loan F (secured) (Note 29C)	**824**	825	**–**	–
Bank loan G (secured) (Note 29D)	**7,000**	7,750	**–**	–
Bank loan H (secured) (Note 29E)	**2,263**	1,500	**–**	–
Bank loan I (secured) (Note 29F)	**997**	1,042	**–**	–
Bank loan J (secured) (Note 29F)	**898**	937	**–**	–
Bank loan K (secured) (Note 29G)	**135**	132	**–**	–
Bank loan L (secured) (Note 29A)	**2,500**	2,500	**–**	–
Trust receipts and bills payable (Note 29H)	**15,794**	25,451	**–**	–
Subtotal	**55,311**	59,887	**–**	–
With fixed interest rates:				
Finance lease liabilities (secured) (Note 29I)	**–**	400	**–**	43
Current, total	**55,311**	60,287	**–**	43
Total	**132,984**	143,367	**–**	236
The non-current portion is repayable as follows:				
Due within two to five years	**26,517**	25,006	**–**	193
After five years	**51,156**	58,074	**–**	–
Total non-current portion	**77,673**	83,080	**–**	193

29. Other financial liabilities (cont'd)

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

	Group	
	2019	**2018**
Bank loan A (secured)	**3.04% to 3.59%**	2.08% to 3.35%
Bank loan B (secured)	**3.05% to 3.58%**	2.72% to 3.35%
Bank loan C (secured)	**3.22% to 3.48%**	2.52% to 3.25%
Bank loan D (secured)	**3.20% to 3.58%**	2.75% to 3.26%
Bank loan E (secured)	**3.10% to 3.60%**	2.95% to 3.55%
Bank loan F (secured)	**2.08% to 2.38%**	1.58% to 2.08%
Bank loan G (secured)	**3.04% to 3.59%**	2.72% to 3.47%
Bank loan H (secured)	**3.21% to 3.42%**	2.42% to 3.34%
Bank loan I (secured)	**1.88% to 2.50%**	1.88% to 3.14%
Bank loan J (secured)	**1.88% to 2.50%**	1.88% to 3.14%
Bank loan K (secured)	**2.38%**	1.88% to 2.53%
Bank loan L (secured)	**3.23% to 3.45%**	2.76% to 3.26%
Trust receipts and bills payable	**1.05% to 3.98%**	1.20% to 3.75%

The range of fixed interest rates per annum paid for finance lease liabilities and their average lease terms were as follows:

	Group		Company	
	2019	**2018**	**2019**	**2018**
Rates per annum	**1.30% - 2.28%**	1.30% - 2.28%	**2.28%**	2.28%
Average lease term in years	**1 to 5**	1 to 5	**5**	5

29A. Bank loans A, B, C and L (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by one lump sum within 6 months (unless rolled over for another interest period of up to 6 months).
(ii) Legal mortgage on certain leasehold properties (Note 15) and leasehold land (Note 16).
(iii) Corporate guarantee from the company.
(iv) Need to comply with certain financial covenants.

29B. Bank loans D and E (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by one lump sum within 6 months (unless rolled over for another interest period of up to 6 months).
(ii) Corporate guarantee from the company.
(iii) Need to comply with certain financial covenants.

29. Other financial liabilities (cont'd)

29C. Bank loan F (secured)

These relate to two loan facilities. The agreements for the bank loans provide among other matters for the following:

(i) Repayable by equal monthly instalments over 20 years from November 2011 and July 2013 respectively.
(ii) Legal mortgage on certain leasehold properties (Note 15) and leasehold land (Note 16).
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

29D. Bank loan G (secured)

The agreement for the bank loan provides among other matters for the following:

(i) Repayable by one lump sum within 6 months (unless rolled over for another interest period of up to 6 months), subject to yearly reduction of $750,000 over 8 years until the limit is reduced to $4,000,000.
(ii) Legal mortgage on certain leasehold properties (Note 15) and leasehold land (Note 16).
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

29E. Bank loan H (secured)

The agreement for the bank loan provides among other matters for the following:

(i) Repayable by over 3 years fixed principal instalment of $125,000 each and remaining by equal monthly instalments over 12 years commencing from May 2017.
(ii) Legal mortgage on a leasehold property (Note 15) and leasehold land (Note 16).
(iii) Legal assignment of construction contract, insurance policies, performance bonds (if any), tenancy agreements and sale and purchase agreement in respect of the proposed development.
(iv) Joint and several corporate guarantees from the company and a subsidiary.
(v) Personal guarantees from a director and a substantial shareholder.
(vi) Need to comply with certain financial covenants.

29F. Bank loans I and J (secured)

The agreements for the bank loans provide among other matters for the following:

(i) Repayable by equal monthly instalments over 14 years from January 2016.
(ii) Legal mortgage on certain leasehold properties (Note 15) and leasehold land (Note 16).
(iii) Corporate guarantees from the company and a subsidiary.
(iv) Need to comply with certain financial covenants.

29G. Bank loan K (secured)

The agreement for the bank loan provides among other matters for the following:

(i) Repayable by equal monthly instalments over 20 years from July 2016.
(ii) Legal mortgage on an investment 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.

29. Other financial liabilities (cont'd)

29H. Trust receipts and bills payable

These are repayable within 150 to 180 days (2018: 150 to 180 days) and are guaranteed by the company.

29I. Finance lease liabilities

As at 31 December 2018, the group and company lease certain motor vehicles from non-related parties under finance leases. The lease agreements do not have renewal clauses but provide the group with options to purchase the leased assets at nominal values at the end of the lease term.

Finance lease liabilities were reclassified to lease liabilities on 1 January 2019 upon the adoption of SFRS(I) 16. The impact of adoption is disclosed in Note 40.

A summary of the maturity analysis of finance lease liabilities that shows the remaining contractual maturities was as follows:

	Minimum payments $'000	Finance charges $'000	Present value $'000
Group:			
2018:			
Minimum lease payments payable:			
Due within one year	418	(18)	400
Due within two to five years	339	(20)	319
Total	757	(38)	719
Carrying amounts of motor vehicles under finance lease liabilities			1,434
Company:			
2018:			
Minimum lease payments payable:			
Due within one year	53	(10)	43
Due within two to five years	210	(17)	193
Total	263	(27)	236
Carrying amounts of motor vehicle under finance lease liability			454

All leases are on fixed repayment basis and no arrangements have been entered into for contingent rental payments. The obligations under finance lease liabilities are secured by the lessors' charge over the leased assets and covered by corporate guarantees from the company.

30. Lease liabilities

	Group $'000	Company $'000
2019:		
Lease liabilities, current	**1,361**	**37**
Lease liabilities, non-current	**10,319**	**156**
	11,680	**193**

30. *Lease liabilities (cont'd)*

Movements of lease liabilities for the reporting year are as follows:

	Group $'000	Company $'000
2019:		
Total lease liabilities recognised as at 1 January 2019 – adoption of SFRS(I) 16	12,874	236
Additions	839	–
Remeasurement	10	–
Accretion of interest	368	9
Lease payments – principal portion paid	(2,328)	(43)
Interest paid	(83)	(9)
Total lease liabilities at end of reporting year	11,680	193

The new standard on leases has been applied using the modified retrospective transition approach. Therefore no comparative amounts for the year ended 31 December 2018 are presented.

The lease liability above does not include the short-term leases of less than 12 months and leases of low-value underlying assets. Variable lease payments which do not depend on an index or a rate or based on a percentage of revenue are not included from the initial measurement of the lease liability and the right-of-use assets. The right-of-use assets are disclosed in Note 16.

On transition to the new standard on leases the weighted average incremental borrowing rate applied to lease liabilities recognised was 3% per year. The finance leases, the right-of-use asset and lease liability before the date of initial application are measured at the same amounts as under the new standard.

Reconciliation of lease commitments and lease liability at the date of initial application:

	Group $'000	Company $'000
2019:		
Operating lease commitments as at 31 December 2018	17,626	–
Less: Discounted using incremental borrowing rate	(5,471)	–
Add: Finance lease liabilities recognised as at 31 December 2018	719	236
Total lease liabilities recognised as at 1 January 2019	12,874	236

A summary of the maturity analysis of lease liabilities that shows the remaining contractual maturities is as follows:

	Minimum payments $'000	Finance charges $'000	Present value $'000
Group:			
2019:			
Minimum lease payments payable:			
Not later than one year	1,685	(324)	1,361
Between one and two years	1,187	(297)	890
Between two and three years	1,001	(271)	730
Between three and four years	749	(253)	496
Between four and five years	696	(238)	458
Later than five years	11,548	(3,803)	7,745
Total	16,866	(5,186)	11,680
Carrying amounts of right-of-use assets under lease liabilities			11,000
Carrying amounts of motor vehicles under lease liabilities			555

30. Lease liabilities (cont'd)

	Minimum payments $'000	Finance charges $'000	Present value $'000
Company:			
2019:			
Minimum lease payments payable:			
Not later than one year	**43**	**(6)**	**37**
Between one and two years	**61**	**(7)**	**54**
Between two and three years	**53**	**(3)**	**50**
Between three and four years	**53**	**(1)**	**52**
Total	**210**	**(17)**	**193**
Carrying amounts of motor vehicle under lease liability			**360**

During the reporting year, expense of the group relating to short-term leases included in other expenses was $175,000 (Note 11).

31. Provision

	Group 2019 $'000	Group 2018 $'000
Provision for rebates	**636**	891
Movements in above provision:		
Balance at beginning of the year	**891**	653
Additions	**636**	891
Used	**(891)**	(653)
Balance at end of the year	**636**	891

The group gives rebates to its customers upon settlement of balances within average credit period granted ie 60 days (2018: 60 days).

32. Trade and other payables

	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
Trade payables:				
Outside parties and accrued liabilities	**9,144**	10,452	**778**	782
Joint ventures (Note 3)	**147**	98	**–**	–
Other related parties (Note 3)	**1,104**	3,175	**–**	–
Subtotal	**10,395**	13,725	**778**	782
Other payables:				
Outside parties	**1,236**	1,608	**–**	–
Subsidiaries (Note 3)	**–**	–	**9,400**	9,400
Joint venture (Note 3)	**–**	45	**–**	–
Director (Note 3)	**2,792**	2,739	**–**	–
Shareholder (Note 3)	**2,718**	2,718	**–**	–
Subtotal	**6,746**	7,110	**9,400**	9,400
Total trade and other payables	**17,141**	20,835	**10,178**	10,182

33. Other liabilities

	Group 2019 $'000	Group 2018 $'000
Contract liabilities	**3,165**	2,481
Deferred rental income	**15**	17
Lease incentives	**9**	17
Total other liabilities	**3,189**	2,515

34. Derivative financial liabilities

	Group 2019 $'000	Group 2018 $'000
Forward foreign exchange contracts	**23**	35
The movements during the year were as follows:		
Balance at beginning of the year	**35**	229
Increase in fair value through profit or loss under other gains (Note 7)	**(12)**	(194)
Balance at end of the year	**23**	35

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 Dollar		**Euro**		**Chinese Renminbi**		**Total**
Maturity	**Principal US$'000**	**Fair value $'000**	**Principal €'000**	**Fair value $'000**	**Principal RMB'000**	**Fair value $'000**	**Fair value $'000**
2019:							
Within 2 months	**131**	**(2)**	**761**	**(4)**	**637**	**(1)**	**(7)**
Within 3 to 4 months	**795**	**(10)**	**995**	**(2)**	**3,309**	**(4)**	**(16)**
	926	**(12)**	**1,756**	**(6)**	**3,946**	**(5)**	**(23)**
2018:							
Within 2 months	294	(1)	1,329	(24)	–	–	(25)
Within 3 to 4 months	–	–	2,221	(10)	–	–	(10)
	294	(1)	3,550	(34)	–	–	(35)

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.

34. Derivative financial liabilities (cont'd)

34A. Forward foreign exchange contracts (cont'd)

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.

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	
	2019	**2018**
	$'000	**$'000**
Commitments to purchase property, plant and equipment	**48**	178

36. Operating lease income commitments – as lessor

A maturity analysis of the undiscounted lease amounts to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years is as follows:

	Group	
	2019	**2018**
	$'000	**$'000**
Not later than one year	**2,745**	3,090
Between one and two years	**1,564**	2,016
Between two and three years	**241**	1,098
Between three and four years	**85**	123
Between four and five years	**–**	87
Total	**4,635**	6,414
Rental income for the year (Note 5)	**3,277**	2,915

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.

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 costs 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.

37. Financial instruments: information on financial risks

37A. Categories of financial assets and liabilities

The following table categorises the carrying amounts of financial assets and liabilities recorded at the end of the reporting year:

	Group		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets:				
Financial assets at amortised cost	**39,601**	41,721	**29,591**	29,480
Financial assets at fair value through profit or loss	**522**	423	**522**	423
	40,123	42,144	**30,113**	29,903
Financial liabilities:				
Financial liabilities at amortised cost	**161,805**	164,202	**10,371**	10,418
Derivatives financial instruments at fair value	**23**	35	**–**	–
	161,828	164,237	**10,371**	10,418

Further quantitative disclosures are included throughout these financial statements.

37B. Financial risk management

The main purpose for holding or issuing financial instruments is to raise and manage the finances for the entity's operating, investing and financing activities. There are exposures to the financial risks on the financial instruments such as credit risk, liquidity risk and market risk comprising interest rate risk, currency risk and price risk exposures. Management has certain practices for the management of financial risks. The guidelines set up the short and long term objectives and action to be taken in order to manage the financial risks. The guidelines include the following:

(i) Minimise interest rate, currency, credit and market risk for all kinds of transactions.
(ii) Maximise the use of "natural hedge": favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency and therefore put in place hedging strategies only for the excess balance. The same strategy is pursued with regard to interest rate risk.
(iii) All financial risk management activities are carried out and monitored by senior management staff.
(iv) All financial risk management activities are carried out following market practices.
(v) When appropriate, consideration is given to investing in shares or similar instruments.
(vi) When appropriate, consideration is given to entering into derivatives or any other similar instruments solely for hedging purposes.

The 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.

37. Financial instruments: information on financial risks (cont'd)

37C. Fair values of financial instruments

The analyses of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 are disclosed in the relevant notes to the financial statements. These include both the significant financial instruments stated at amortised cost and at fair value in the statement of financial position. The carrying amounts of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value.

37D. Credit risk on financial assets

Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner. These arise principally from cash balances with banks, cash equivalents, receivables and other financial assets. The maximum exposure to credit risk is the total of the fair value of the financial assets at the end of the reporting year. Credit risk on cash balances with banks and any other financial instruments is limited because the counter-parties are entities with acceptable credit ratings. For expected credit losses ("ECL") on financial assets, a simplified approach is permitted by the financial reporting standards on financial instruments for financial assets that do not have a significant financing component, such as trade receivables. On initial recognition, a day-1 loss is recorded equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For credit risk on trade receivables an ongoing credit evaluation is performed on the financial condition of the debtors and an impairment loss is recognised in profit or loss. Reviews and assessments of credit exposures in excess of designated limits are made. Renewals and reviews of credits limits are subject to the same review process.

The group's and the company's major classes of financial assets are bank deposits and trade receivables.

Note 26 discloses the maturity of the cash and cash equivalents balances. Cash and cash equivalents are also subject to the impairment requirements of the standard on financial instruments. There was no identified impairment loss.

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

37E. Liquidity risk – financial liabilities maturity analysis

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

	Less than 1 year $'000	2 to 5 years $'000	More than 5 years $'000	Total $'000
Group:				
2019:				
Gross loans and borrowings	**58,451**	**31,040**	**61,871**	**151,362**
Lease liabilities	**1,685**	**3,633**	**11,548**	**16,866**
Trade and other payables	**17,141**	**–**	**–**	**17,141**
	77,277	**34,673**	**73,419**	**185,369**

37. Financial instruments: information on financial risks (cont'd)

37E. Liquidity risk – financial liabilities maturity analysis (cont'd)

	Less than 1 year $'000	2 to 5 years $'000	More than 5 years $'000	Total $'000
Group:				
2018:				
Gross loans and borrowings	63,762	33,138	65,156	162,056
Other financial liabilities	418	339	–	757
Trade and other payables	20,835	–	–	20,835
	85,015	33,477	65,156	183,648

	Less than 1 year $'000	2 to 5 years $'000	Total $'000
Company:			
2019:			
Lease liabilities	**43**	**167**	**210**
Trade and other payables	**10,178**	**–**	**10,178**
	10,221	**167**	**10,388**
2018:			
Other financial liabilities	53	210	263
Trade and other payables	10,182	–	10,182
	10,235	210	10,445

The undiscounted amounts on the borrowings with fixed and floating interest rates are determined by reference to the conditions existing at the report date.

The following table analyses the derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows) at the end of the reporting year:

	Less than 1 year	
	2019 $'000	**2018 $'000**
Group:		
Forward currency forward contracts	**4,688**	5,998

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.

37. Financial instruments: information on financial risks (cont'd)

37E. Liquidity risk – financial liabilities maturity analysis (cont'd)

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:

	Less than 1 year $'000	2 to 5 years $'000	More than 5 years $'000	Total $'000
Company:				
2019:				
Financial guarantee contracts in favour of subsidiaries (Note 3)	**54,139**	**19,215**	**35,464**	**108,818**
2018:				
Financial guarantee contracts in favour of subsidiaries (Note 3)	59,089	18,147	40,448	117,684

The average credit period taken to settle trade payables is about 60 days (2018: 60 days). The other payables are with short-term durations. The classification of the financial assets is shown in the statement of financial position as they may be available to meet liquidity needs and no further analysis is deemed necessary. In order to meet such cash commitments, the operating activities are expected to generate sufficient cash inflows.

37F. Interest rate risk

The interest rate risk exposure is from changes in fixed and floating interest rates and it mainly concerns financial liabilities which are both fixed rate and floating rate. The interest from financial assets including cash balances is not significant.

The following table analyses the breakdown of the significant financial instruments by type of interest rate at the end of the reporting year:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Financial liabilities:				
Fixed rates	**11,680**	719	**193**	236
Floating rates	**132,984**	142,648	**–**	–
	144,664	143,367	**193**	236

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.

37. Financial instruments: information on financial risks (cont'd)

37F. Interest rate risk (cont'd)

Sensitivity analysis:

	Group 2019 $'000	Group 2018 $'000
Financial liabilities:		
A hypothetical increase in interest rates by 100 basis points with all other variables held constant would have decreased pre-tax profit for the year	**1,330**	1,426

The analysis has been performed for fixed interest rate and floating interest rate over a year for financial instruments. The impact of a change in interest rates on fixed interest rate financial instruments has been assessed in terms of changing of their fair value. The impact of a change in interest rates on floating interest rate financial instruments has been assessed in terms of changing of their cash flows and therefore in terms of the impact on net expenses. The hypothetical changes in basis points are not based on observable market data (unobservable inputs).

37G. Foreign currency risk

Foreign exchange risk arises on financial instruments that are denominated in a foreign currency, ie in a currency other than the functional currency in which they are measured. For the purpose of this financial reporting standard on financial instruments: disclosures, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

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

	United States Dollar $'000	Euro $'000	Vietnamese Dong $'000	Chinese Renminbi $'000	Total $'000
Group:					
2019:					
Financial assets:					
Cash and cash equivalents	**2,431**	**33**	**1,709**	**–**	**4,173**
Loans and receivables	**1,912**	**–**	**–**	**–**	**1,912**
Total financial assets	**4,343**	**33**	**1,709**	**–**	**6,085**
Financial liabilities:					
Other financial liabilities	**–**	**(5,889)**	**–**	**–**	**(5,889)**
Trade and other payables	**(3,153)**	**(277)**	**–**	**(731)**	**(4,161)**
Total financial liabilities	**(3,153)**	**(6,166)**	**–**	**(731)**	**(10,050)**
Net financial assets (liabilities)	**1,190**	**(6,133)**	**1,709**	**(731)**	**(3,965)**

37. Financial instruments: information on financial risks (cont'd)

37G. Foreign currency risk (cont'd)

	United States Dollar $'000	Euro $'000	Vietnamese Dong $'000	Chinese Renminbi $'000	Total $'000
Group:					
2018:					
Financial assets:					
Cash and cash equivalents	886	–	1,029	–	1,915
Loans and receivables	1,360	–	–	–	1,360
Total financial assets	2,246	–	1,029	–	3,275
Financial liabilities:					
Other financial liabilities	–	(9,515)	–	–	(9,515)
Trade and other payables	(2,740)	(316)	–	–	(3,056)
Total financial liabilities	(2,740)	(9,831)	–	–	(12,571)
Net financial (liabilities) assets	(494)	(9,831)	1,029	–	(9,296)

There is exposure to foreign currency risk as part of the group's normal business. In particular, there is significant exposure to United States Dollar, Euro and Chinese Renminbi currency risk due to the large value of purchases denominated in these currencies and the group sells its goods in Singapore Dollar. In this respect, forward currency contracts are entered into for the purpose of hedging the purchases in United States Dollar, Euro and Chinese Renminbi. Note 34A disclosed the forward currency contracts in place at the end of the reporting year.

Sensitivity analysis:

	Group 2019 $'000	Group 2018 $'000
A hypothetical 10% strengthening in the exchange rate of the functional currency against the following currencies with all other variables held constant would have a favourable (adverse) effect on pre-tax profit of:		
United States Dollar	**(119)**	49
Euro	**613**	983
Vietnamese Dong	**(171)**	(103)
Chinese Renminbi	**73**	–

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.

37. Financial instruments: information on financial risks (cont'd)

37H. Equity price risk

There are investments in equity shares or similar instruments. Such investments are exposed to market price risk arising from uncertainties about future values of the investment securities.

Sensitivity analysis: The effect on pre-tax profit is not significant.

38. Changes and adoption of financial reporting standards

For the current reporting year new or revised financial reporting standards were issued by the Singapore Accounting Standards Council. Those applicable to the group are listed below. Adoption of the applicable new or revised standards has resulted in some changes in the detailed application of the accounting policies and some modifications to financial statements presentation and measurement as disclosed in Note 40.

SFRS(I) No.	Title
SFRS(I) 16	Leases (and Leases - Illustrative Examples & Amendments to Guidance on Other Standards)
SFRS(I) 1-28	Amendments to Long-term Interests in Associates and Joint Ventures
SFRS(I) 1-12	Improvements (2017) – Amendments: Income Taxes
SFRS(I) 1-23	Improvements (2017) – Amendments: Borrowing Costs
SFRS(I) 11	Improvements (2017) – Amendments: Joint Arrangements

39. New or amended standards in issue but not yet effective

For the future reporting years certain new or revised financial reporting standards were issued by the Singapore Accounting Standards Council and these will only be effective for future reporting years. Those applicable to the group for future reporting years are listed below. The transfer to the applicable new or revised standards from the effective dates is not expected to result in any significant modification of the measurement methods or the presentation in the financial statements for the following year from the known or reasonably estimable information relevant to assessing the possible impact that application of the new or revised standards may have on the group's financial statements in the period of initial application.

SFRS(I) No.	Title	Effective date for periods beginning on or after
SFRS(I) 3	Definition of a Business – Amendments	1 January 2020
SFRS(I) 1-1 and 1-8	Definition of Material – (Amendments to) throughout The Conceptual Framework for Financial Reporting	1 January 2020
SFRS(I) 10 and SFRS(I) 1-28	Sale or Contribution of Assets between and Investor and its Associate or Joint Venture	Not fixed yet

40. Changes in accounting policies and restatements of comparative figures

Effective from beginning of the current reporting year certain new or revised financial reporting standards were adopted as disclosed in Note 38. Adoption of those policies and any other changes have resulted in some changes in the application of the accounting policies and some modifications to financial statement presentation and these changes are summarised below.

Adoption of SFRS(I) 16 Leases:

(a) When the group is the lessee

Prior to the adoption of SFRS(I) 16, non-cancellable operating lease payments were not recognised as liabilities in the statement of financial position. These payments were recognised as rental expenses over the lease term on a straight-line basis.

The group's accounting policy on leases after the adoption of SFRS(I) 16 is disclosed in Note 2.

On initial application of SFRS(I) 16, the group has elected to apply the following practical expedients:

i) For all contracts entered into before 1 January 2019 and that were previously identified as leases under SFRS(I) 1-17 Lease and SFRS(I) INT 4 Determining whether an Arrangement contains a Leases, the group has not reassessed if such contracts contain leases under SFRS(I) 16; and

ii) On a lease-by-lease basis, the group has:

a) applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
b) relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
c) accounted for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
d) excluded initial direct costs in the measurement of the right-of-use ("ROU") asset at the date of initial application; and
e) used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

There were no onerous contracts as at 1 January 2019.

For leases previously classified as operating leases on 1 January 2019, the group has applied the following transition provisions:

(i) On a lease-by-lease basis, the group chose to measure its ROU assets at a carrying amount as if SFRS(I) 16 had been applied since the commencement of the lease but discounted using the incremental borrowing rate at 1 January 2019.

(ii) Recognised its lease liabilities by discounting the remaining lease payments as at 1 January 2019 using the incremental borrowing rate for each individual lease or, if applicable, the incremental borrowing rate for each portfolio of leases with reasonably similar characteristic.

(iii) The difference between the carrying amounts of the ROU assets and lease liabilities as at 1 January 2019 is adjusted directly to opening retained profits. Comparative information is not restated.

(iv) For leases previously classified as finance leases, the carrying amount of the leased asset and finance lease liability as at 1 January 2019 are determined as the carrying amount of the ROU assets and lease liabilities.

40. Changes in accounting policies and restatements of comparative figures (cont'd)

Adoption of SFRS(I) 16 Leases (cont'd):

(a) When the group is the lessee (cont'd)

The group has made upfront payments of $36,264,000 for five parcels of leasehold land in Singapore and People's Republic of China, which are used in the group's warehousing and business operations. The carrying amounts of these leasehold land amounting to $30,550,000 were recognised as other assets as at 31 December 2018 and were reclassified to right-of-use assets on 1 January 2019 upon the adoption of SFRS(I) 16.

The effects of adoption of SFRS(I) 16 on the group's and company's financial statements as at 1 January 2019 are as follows:

	Increase / (decrease)	
	Group	**Company**
	$'000	**$'000**
Right-of-use assets (Note 16)	**42,405**	**-**
Other assets, non-current (Note 17)	**(30,550)**	**-**
Other financial liabilities (Note 29)	**(719)**	**(236)**
Lease liabilities (Note 30)	**12,874**	**236**
Retained earnings	**(300)**	**-**

(b) When the group is a lessor

There are no material changes to accounting by the group as a lessor.

Statistics of Shareholdings

AS AT 16 MARCH 2020

Number of shares	:	430,550,000
Class of equity securities	:	Ordinary
Voting rights	:	One vote per ordinary share
Treasury shares and subsidiary holdings held	:	NIL

Distribution of Shareholdings

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	–	–	–	–
100 – 1,000	24	3.62	12,600	–*
1,001 – 10,000	167	25.23	1,163,010	0.27
10,001 – 1,000,000	456	68.88	30,582,550	7.10
1,000,001 AND ABOVE	15	2.27	398,791,840	92.63
TOTAL	**662**	**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, 6]	113,900	0.03	69,553,400	16.15
CHING CHIAT KWONG[7]	412,200	0.09	32,327,530	7.51

Notes:

(1) 218,790,000 ordinary shares are held in the name of Maybank Nominees (Singapore) Private Limited.

(2) Gek Poh (Holdings) Sdn. Bhd. ("GPH") holds a 60.83% comprising direct and indirect interest of 54.63% and 6.20% respectively in Hap Seng Consolidated Berhad ("HSCB"), which wholly-owns Hap Seng Investment Holdings Pte Ltd ("HSIHPL"). GPH and HSCB are each deemed to be interested in the 218,790,000 shares which HSIHPL is interested in, pursuant to Section 7 of the Companies Act, Chapter 50 ("the Act").

(3) Magic Principle Assets Limited ("MPAL") holds a 44% interest in GPH, and is wholly-owned by HSBC International Trustee Limited ("HSBC"). MPAL and HSBC are deemed interested in the 218,790,000 shares which HSIHPL is interested in, pursuant to Section 7 of the Act.

(4) Tan Sri Datuk Seri Panglima Lau Cho Kun @ Lau Yu Chak holds a 56% interest in GPH, and is deemed to be interested in the 218,790,000 shares which HSIHPL is interested in, pursuant to Section 7 of the Act.

(5) Low Kok Ann is the father of Low See Ching.

(6) 12,387,700 ordinary shares are held in the name of Citibank Nominees Singapore Pte Ltd, 19,665,700 ordinary shares are held in the name of OCBC Securities Private Limited, 32,500,000 ordinary shares are held in the name of Hong Leong Finance Nominees Pte Ltd and 5,000,000 ordinary shares are held in the name of DB Nominees (Singapore) Pte Ltd.

(7) 6,081,400 ordinary shares are held in the name of Citibank Nominees Singapore Pte Ltd, 18,080,700 ordinary shares are held in the name of DB Nominees (Singapore) Pte Ltd and 8,165,430 ordinary shares are held in the name of Raffles Nominees (Pte) Limited.

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	21,836,900	5.07
6	CITIBANK NOMINEES SINGAPORE PTE LTD	19,689,800	4.57
7	LOW BEE LAN AUDREY	16,536,707	3.84
8	RAFFLES NOMINEES (PTE.) LIMITED	8,891,950	2.07
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	PHILLIP SECURITIES PTE LTD	1,862,100	0.43
13	DBS NOMINEES (PRIVATE) LIMITED	1,712,700	0.40
14	LOW EE HWEE	1,277,200	0.30
15	NOVA FURNISHING HOLDINGS PTE LTD	1,249,300	0.29
16	GOH KEE CHOO (WU QIZHU)	995,700	0.23
17	TAY ENG KIAT JACKSON (ZHENG YINGJIE)	650,000	0.15
18	NG CHWEE TEE	579,900	0.13
19	EVANGELIN YEW LEET LING (EVANGELIN YAO LILING)	551,400	0.13
20	ANG KIAN CHUAN	500,000	0.12
	TOTAL	**402,068,840**	**93.38**

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.

Additional Information on Director Seeking Re-Election

The following additional information on Mr Low Kok Ann, is seeking re-election as Director at the forthcoming Annual General Meeting.

Name	:	**Low Kok Ann**
Date of First Appointment	:	6 October 2009
Age	:	71
Country of Principal Residence	:	Singapore
Date of last re-appointment	:	11 April 2017
The Board's comments on the re-appointment	:	The Board, having considered the recommendation of the Nominating Committee and taking into consideration of Mr Low's qualifications and experience (as set out below), to assume the responsibilities as the Executive Director and Chief Executive Officer.
Whether appointment is executive, and if so, the area of responsibility	:	Executive, responsible for formulating and overseeing the corporate and strategic development and overall management and operations of the Group.
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	:	• Chief Executive Officer • Executive Director
Professional qualifications	:	• Government Higher School Certificate (Chinese)
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	:	Father of Low See Ching (Non-Independent Non-Executive Director)
Conflict of interest (including any competing business)	:	No
Working experience and occupation(s) during the past 10 years	:	Executive Director of the 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 corporation in 1980. His wealth of experience in the tile industry has been pivotal to the Company's success and growth.

Additional Information on Director Seeking Re-Election

Name	:	**Low Kok Ann**
Undertaking submitted to the listed issuer in the form of Appendix 7.7 (Rule 720(1) has been submitted to Hafary	:	Yes
Shareholding interest in the listed issuer and its subsidiaries	:	Yes
Shareholding Details	:	Direct Interest Hafary Holdings Limited 35,564,003 ordinary shares (as at 31 March 2020)
Other Principal Commitments Including Directorships		
Past (for the last 5 years)	:	None
Present	:	Hafary Holdings Limited (Executive Director and Chief Executive Officer)
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	:	No
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	:	No
(c) Whether there is any unsatisfied judgment against him?	:	No

Additional Information on Director Seeking Re-Election

Name		:	Low Kok Ann
(d)	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	:	No
(e)	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	:	No
(f)	Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	:	No
(g)	Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	:	No
(h)	Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	:	No
(i)	Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	:	No

Additional Information on Director Seeking Re-Election

Name	:	**Low Kok Ann**
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:-		
i. any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	:	No
ii. any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	:	No
iii. any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	:	No
iv. any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	:	No
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	:	No
Disclosure applicable to the appointment of Director only		
Any prior experience as a director of an listed issuer listed on the Exchange? If No, please state if the director has attended or will be attending training on the roels and responsibilities of a director of a listed issuer as prescribed by the Exchange. Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable)	:	Not Applicable

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Our Showrooms

Hafary Gallery

105 Eunos Avenue 3 Hafary Centre
Singapore 409836
Tel: 6250 1368 Fax: 6383 1536
Email: eunosshowroom@hafary.com.sg

Operating hours:
Mon to Sat: 9.00am – 7.00pm
Sun and PH: 10.30am – 5.30pm

Hafary Balestier

560 Balestier Road Singapore 329876
Tel: 6250 1369 Fax: 6255 4450
Email: balestiershowroom@hafary.com.sg

Operating hours:
Mon to Fri: 9.00am – 7.30pm
Sat: 9.00am – 7.00pm
Sun and PH: 10.30am – 5.00pm

Hafary Tradehub 21

18 Boon Lay Way #01-132 Tradehub 21
Singapore 609966
Tel: 6570 6265 Fax: 6570 8425
Email: tradehub21showroom@hafary.com.sg

Operating hours:
Mon to Sat: 10.00am – 7.00pm
Sun and PH: 10.00am – 5.00pm

The Stone Gallery By Hafary

18 Sungei Kadut Street 2
World Furnishing Hub, Level 7
Singapore 729236
Tel: 6219 3323 Fax: 6219 3313
Email: thestonegallery@hafary.com.sg

Operating hours (By Appointment only):
Mon to Fri: 9.00am – 6.00pm
Sat: 9.00am – 2.00pm

合發利控股有限公司
HAFARY HOLDINGS LIMITED

(Company Registration No. 200918637C)
105 Eunos Avenue 3 Hafary Centre
Singapore 409836