HON CORPORATION LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8259

Annual Report
2018

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This report, for which the directors (the "Directors") of Hon Corporation Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries (together, the "Group"). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Ho Lien Hwai
(Chairman and Chief Executive Officer)
Ms. Ng Mei Yun
Mr. Lim Shi Min

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Chye Kim
Mr. Lau Wang Lap
Mr. Chan Shun Yin

AUDIT COMMITTEE

Mr. Lau Wang Lap *(Chairman)*
Mr. Ng Chye Kim
Mr. Chan Shun Yin

REMUNERATION COMMITTEE

Mr. Ng Chye Kim *(Chairman)*
Mr. Ho Lien Hwai
Mr. Chan Shun Yin

NOMINATION COMMITTEE

Mr. Chan Shun Yin *(Chairman)*
Ms. Ng Mei Yun
Mr. Lau Wang Lap

COMPANY SECRETARY

Mr. Ng Chit Sing

AUTHORISED REPRESENTATIVES

Mr. Ho Lien Hwai
Mr. Ng Chit Sing

COMPLIANCE OFFICER

Mr. Ho Lien Hwai

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CORPORATE INFORMATION

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STOCK CODE

8259

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CHAIRMAN'S STATEMENT

Dear Shareholders

Our behalf of the board (the "Board") of directors (the "Directors") of Hon Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group"), I would like to present to our shareholders the first annual report of the Group for the year ended 31 December 2018 (the "Year") since its listing on GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group was successfully listed on GEM of the Stock Exchange (the "Listing") on 7 November 2018 (the "Listing Date"). We were pleased to witness this important milestone of the Group. The Listing was an important milestone in the Group's history and the listing status has elevated all business aspects of the Group because not only it strengthened our market position in the building and construction industry in Singapore; but also provided the Group with additional working capital and resources for the expansion of our operations, and implementation of our future plans and business strategies; enhanced our credibility and visibility in the building and construction industry in Singapore, where a publicly-listed contractor may be viewed as one with higher standards of corporate governance and financial disclosure; which would absolutely strengthen and enhance our competitiveness against our competitors.

However, our success in Listing was not achieved without challenges. 2018 was a year of challenging and improvement for the Group. During the Year, the Group had gone through competitive tendering processes for both public and private customers in order to secure new contracts with better margins.

The business objectives are to maintain sustainable growth in our business, strengthen our market position in the building and construction industry in Singapore and create long-term shareholders' value. We are of the view that with expansion plan on making investments in our manpower and machinery and equipment which would increase our capacity to tender for and undertake more higher value projects concurrently, thus capturing more market share in the building and construction industry in Singapore and delivering satisfactory return to our shareholders.

On behalf of the Board, I would like to express my sincerest gratitude to our valued customers, subcontractors, business partners, and shareholders for their persistent support, while also expressing my appreciation to the management team and employees for their valuable contribution to the development of the Group.

Ho Lien Hwai
Chairman and Chief Executive Officer

Singapore, 21 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

The construction market in Singapore remained relatively stable for the year ended 31 December 2018, with no material adverse change in the general economic and market conditions in Singapore or the industry in which we operated that had materially or adversely affected or would affect the business operations or financial condition.

BUSINESS REVIEW AND PROSPECT

The core business and revenue structure of the Group has remained unchanged for the year ended 31 December 2018. The Group's operations are located in Singapore and our revenue and profit from operations are solely derived from services rendered within Singapore. The Group is actively involved as a main contractor in both private and public sector projects which include institutional, industrial, commercial and residential projects. The revenue was principally derived from project works for our (i) building and infrastructure projects; (ii) interior decoration projects; and (iii) term contracts.

Our business strategies remained unchanged. Since the listing of the Company, the management has continuously consolidated and strengthened the reputation of the Group through submission of tenders invitation to keep our presence in the market. Leveraging our listing status, our core business continued to earn good reputation and provided the Group with sound track record for our potential business opportunities. Subsequent to the year ended 31 December 2018, the Group has secured new project, together with the ongoing projects in hand, our revenue could be sustained for the next year.

Looking forward, the Group will continue to focus on strengthening the market position in the building and construction industry in Singapore. Leveraging the competitive advantages in terms of credibility and visibility in the building and construction industry upon listing of the Company, the Board expects that the Group is well-positioned for the challenges and competition ahead, and aims to deliver satisfactory return to shareholders.

COMPLETED PROJECTS

During the year ended 31 December 2018, the Group had completed two projects with an aggregated contract value of approximately S$15.2 million.

ONGOING PROJECTS

As at 31 December 2018, the Group had seven ongoing building and infrastructure projects, one interior decoration project, and seven term contracts with an aggregate contract sum of approximately S$308.5 million, of which approximately S$196.6 million has been recognised as revenue as at 31 December 2018. The remaining balance will be recognised as our revenue in accordance with the stage of completion.

The management considered that all of the ongoing projects were on schedule and none of which would cause the Group to indemnify the third parties and incur any contingent liabilities as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

NEWLY AWARDED PROJECTS

Subsequent to the year ended 31 December 2018 and at the date of this report, the Group had secured one building and infrastructure projects in private sector with an initial contract sum of approximately S$17.5 million. The contract involves additions and alterations for change of use to existing commercial building with shops on the 1st storey and hotel rooms on the upper storey and recreational facilities on the roof top. The project has commenced in February 2019 and is expected to complete in March 2020.

FINANCIAL HIGHLIGHTS

Revenue decreased by approximately 6.3% to approximately S$94.4 million for the year ended 31 December 2018 from approximately S$100.8 million for the year ended 31 December 2017.

Gross profit decreased by approximately 2.7% to approximately S$10.7 million for the year ended 31 December 2018 from approximately S$11.0 million for the year ended 31 December 2017.

Adjusted profit (excluding listing expenses of approximately S$3.9 million relating to professional fees and S$0.2 million of other incidental cost such as travelling expenses, registration fees, printing cost and etc.) increased by approximately 10.4% to approximately S$5.3 million for the year ended 31 December 2018 from approximately S$4.8 million for the year ended 31 December 2017.

The gross profit margin increased by approximately 0.4% to approximately 11.3% for the year ended 31 December 2018 from approximately 10.9% for the year ended 31 December 2017.

Adjusted profit attributable to equity holders of the Company (excluding listing expenses of approximately S$3.9 million relating to professional fees and S$0.2 million of other incidental cost such as travelling expenses, registration fees, printing cost and etc.) increased by approximately 6.0% to approximately S$5.3 million for the year ended 31 December 2018 from approximately S$5.0 million for the year ended 31 December 2017.

The Board has resolved not to recommend any payment of final dividend for the year ended 31 December 2018 (2017: S$3.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of the Group's revenue, the number of projects/contracts performed and the percentage contribution to total revenue for the years ended 31 December 2018 and 2017:

	For the year ended 31 December					
	2018			2017		
	Number of projects/ contracts	**Revenue (S$'000)**	**% of revenue (%)**	Number of projects/ contracts	Revenue (S$'000)	% of revenue (%)
Building and infrastructure projects	**6**	**70,381**	**74.5**	6	85,141	84.4
Interior decoration projects	**3**	**6,009**	**6.4**	6	9,083	9.0
Term contracts	**6**	**18,020**	**19.1**	3	6,617	6.6
Total	**15**	**94,410**	**100.0**	15	100,841	100.0

Revenue of the Group decreased by approximately 6.3% to approximately S$94.4 million for the year ended 31 December 2018 from approximately S$100.8 million for the year ended 31 December 2017. The decrease in our revenue was mainly due to:

i. Decrease in revenue contributed by a major building and infrastructure project, Project International School, as the project works were substantially completed during the third quarter of the financial year ended 31 December 2018.

ii. Decrease in revenue from interior decoration projects due to completion of two projects, Project Healthcare in March 2018 and Project Library in June 2018, respectively.

These negative effects were partially offset by the increase in revenue generated from term contract projects which was mainly due to commencement of work for 3 term contract projects, of which two were awarded during the year. Aside from the aforementioned projects, there were increases and decreases in revenue recognised from our projects due to the varying amount of works performed for the year ended 31 December 2017 and 2018.

Cost of Services

Cost of services of the Group refer to costs that are directly related to our project works such as subcontracting costs, material costs, staff costs, and overheads.

Cost of services amounted to approximately S$83.7 million for the year ended 31 December 2018, representing a decrease of approximately 6.8% over the previous year. Such decrease was generally in line with our decrease in revenue during the year ended 31 December 2018.

Gross Profit and Gross Profit Margin

The gross profit of the Group decreased by approximately S$0.3 million or approximately 2.7%, from approximately S$11.0 million for the year ended 31 December 2017 to approximately S$10.7 million for the year ended 31 December 2018. Notwithstanding the decrease in gross profit, gross profit margin increased by approximately 0.4% from approximately 10.9% for the year ended 31 December 2017 to approximately 11.3% for the year ended 31 December 2018.

The increase in gross profit margin was mainly due to commencement of work performed for a building and infrastructure project, a interior decoration project and a term contract during the year ended 31 December 2018, which contributed approximately S$0.4 million, S$0.4 million and S$0.8 million to the gross profit respectively, with a higher gross profit margin of approximately 14%, 14% and 12% respectively.

Other income

The other income of the Group increased by approximately S$0.7 million or 63.6% from approximately S$1.1 million for the year ended 31 December 2017 to approximately S$1.8 million for the year ended 31 December 2018. The increase was mainly due to increase in engineering service income of approximately S$0.6 million.

Other gains or losses

The other gains or losses of the Group comprised mainly allowances for credit losses on trade receivables, loss on disposal of property, plant and equipment, and loss from changes in fair value of investment property. The other losses of the Group increased by approximately S$42,000 from approximately S$116,000 for the year ended 31 December 2017 to approximately S$158,000 for the year ended 31 December 2018. The increase was mainly due to allowances for credit loss on trade receivables recognised for the year ended 31 December 2018 while none was recognised for the year ended 31 December 2017.

Administrative Expenses

The administrative expenses of the Group, mainly comprised of staff cost, rental expenses and professional and compliance fees, increased by approximately S$4.3 million or approximately 86.0% from approximately S$5.0 million for the year ended 31 December 2017 to approximately S$9.3 million for the year ended 31 December 2018. The increase was mainly due to the one-off listing expenses of approximately S$3.9 million relating to professional fees and S$0.2 million of other incidental cost such as travelling expenses, registration fees, printing cost and etc, incurred in relation to the Company's listing on the GEM of the Stock Exchange on 7 November 2018.

Finance Costs

The finance costs of the Group comprised mainly interest expenses on borrowings and bills payables from bank and financial institutions and finance leases for certain motor vehicles, plant and machinery and office equipment. The finance cost of the Group increased by approximately S$0.1 million or approximately 20% from approximately S$0.5 million for the year ended 31 December 2017 to approximately S$0.6 million for the year ended 31 December 2018. The increase was mainly due to a higher utilisation of bills payables during the year ended 31 December 2018.

Income Tax Expenses

The income tax expenses of the Group was largely consistent at approximately S$1.2 million for the years ended 31 December 2017 and 2018 as the adjusted profit before tax for the year ended 31 December 2018 maintained at approximately S$6.5 million as compared to profit before tax of approximately S$6.4 million for the year ended 31 December 2017.

Profit Attributable to Equity Holders of the Company

The profit attributable to equity holders of the Company decreased from approximately S$5.0 million for the year ended 31 December 2017 to approximately S$1.2 million for the year ended 31 December 2018, representing a decrease of approximately S$3.8 million. Excluding the one-off listing expenses of approximately S$3.9 million relating to professional fees and S$0.2 million of other incidental cost such as travelling expenses, registration fees, printing cost and etc, incurred during the year ended 31 December 2018, the adjusted profit attributable to equity holders of the Company for the year ended 31 December 2018 would be approximately S$5.3 million, representing an increase of approximately S$0.3 million or approximately 6.0% compared to the year ended 31 December 2017.

DISCONTINUED OPERATIONS

On 31 December 2017, the Group entered into a sale agreement to dispose of a subsidiary, Advanced Engineering Group (International) Pte. Ltd. ("Advanced Engineering"), which carried out the manufacturing and repairing business. The disposal was completed on 31 December 2017, on which date control of Advanced Engineering was passed to the acquirer.

We recorded a recognised loss from discontinued operation of approximately S$0.4 million for the year ended 31 December 2017.

Dividends

The Board has resolved not to recommend any payment of final dividend for the year ended 31 December 2018.

During the year ended 31 December 2017, an interim dividend in aggregate amount of S$3,499,000, has been declared by the Company's subsidiaries, Hon Industries Pte. Ltd. ("Hon Industries") and are settled through the amounts due from shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The Group practised prudent financial management and maintained a strong and sound financial position as at 31 December 2018. The Group finances its daily operations through a combination of internally-generated funds from operations, borrowings and net proceeds from the share offer.

As at 31 December 2018, the Group had cash and cash equivalents of approximately S$5.0 million (31 December 2017: approximately S$1.9 million). The increase in cash and cash equivalents was mainly attributable to the net proceeds from share offer of approximately S$4.5 million.

The total interest-bearing borrowings, including bank overdraft, bank borrowings, bills payables, obligations under finance leases, and liabilities associated with assets classified as held for sales was approximately S$19.7 million (31 December 2017: approximately S$23.8 million). The current ratio, being the ratio of current assets to current liabilities was approximately 1.2 times as at 31 December 2018 (31 December 2017: approximately 1.0 time). As at 31 December 2018, the gearing ratio of the Group was 0.9 times (31 December 2017: 2.1 times). The gearing ratio is calculated as total debts (borrowings, finance lease obligations, and bills payables) divided by total equity.

Pledge of Assets

As at 31 December 2018,

(a) the Group had pledged bank fixed deposits of approximately S$0.8 million (31 December 2017: S$0.7 million) as collateral to securing certain bills payables and borrowings granted to the Group ;

(b) the Group's properties with an aggregate carrying value of approximately S$12.3 million (31 December 2017: S$11.0 million) were also pledged for mortgage to securing certain bank loans, bills payables and borrowings granted to the Group ; and

(c) the Group's obligation under a finance lease was secured by the lessor's title to the leased asset, which had a carrying amount of approximately S$1.6 million (31 December 2017: S$2.7 million).

Foreign Exchange Exposure

For the year ended 31 December 2018, the headquarters and principal place of business of the Group is in Singapore with our revenue and cost of services mainly denominated in Singapore dollars, which is the functional currency of all the Group's operating subsidiaries.

However, the Group retains some listing proceeds from the share offer denominated in Hong Kong dollars amounting to approximately S$2.7 million that are exposed to fluctuations in foreign exchange rate risks.

The Group will continue to monitor its foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. During the year ended 31 December 2018, the Group has not entered into any agreement or commit to any financial instruments to hedge any exchange rate exposure.

MANAGEMENT DISCUSSION AND ANALYSIS

Share Capital

The Company's capital comprises ordinary shares and capital reserves. The Group finances its working capital, capital expenditures and other liquidity requirements through a combination its cash and cash equivalents, cash flows generated from operations, bank facilities, net proceeds from the share offer.

Contingent Liabilities

As at 31 December 2018, the Group had an outstanding performance bond for construction contracts, amounted to approximately S$14.6 million (31 December 2017: S$15.4 million). The performance bonds were secured by personal guarantees given by the certain Directors and released when the construction contracts are practically completed. As represented by those Directors of the Company, the personal guarantees will be released upon Listing and replaced by corporate guarantees. At the date of this report, the replacement of personal guarantee by corporate guarantee is in the process of execution.

As at 31 December 2018, the Group was involved in a legal proceeding against the Group in respect of a dispute with our subcontractor for outstanding payment in respect of works performed at our Project Park worksite, and a Notice of Discontinuance/Withdrawal has been filed by the sub-contractor and accepted by the Court in March 2019.

In addition, as at the date of this report, the Group was involved in another legal proceeding (the "Proceedings") against the Group in respect of a dispute with our subcontractor for outstanding payment in respect of works performed at our Project International School, for which Proceedings are still ongoing and settlement has not been reached as at the date of this report. Based on the advice from the legal counsel of the Group, the Group has a legitimate and sound defence and our maximum exposure to the proceedings would be up to approximately S$72,000, being the total liquidated damages claimed by the two subcontractors in the Proceedings.

Save as disclosed above and as at 31 December 2018, the Group did not have any other material contingent liabilities (31 December 2017: S$Nil).

Commitments

As at 31 December 2018,

(a) the Group had approximately S$279,000 capital commitment (31 December 2017: S$Nil) mainly related to acquisition of machineries;

(b) the Group had operating lease commitment amounted to approximately S$307,000 in relation to the minimum rent payable under non-cancellable leases for two properties for our head office and certain office equipment under operating leases (31 December 2017: S$124,000); and

(c) the Group had future minimum rent income receivable under contracts with tenants amounted to approximately S$51,000 in relation to the Group's properties held with committed tenants for the next 12 months (31 December 2017: S$147,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Save as disclosed above in relation to the disposal of Advanced Engineering on 31 December 2017, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies during the year ended 31 December 2018, except for those in relation to the group reorganisation in preparation of the listing of the Company as set out in the prospectus of the Company dated 22 October 2018 (the "Prospectus").

Future Plans for Material Investment and Capital Assets

Save as disclosed in the section headed "Future plans and use of proceeds" in the Prospectus, the Group did not have other plans for material investment or capital assets as at 31 December 2018.

Significant Investments Held and Principal Properties

Except for investment in its subsidiaries and properties held by the Group, the Group did not hold any significant investments during the year ended 31 December 2018.

Employees and Remuneration Policies

As at 31 December 2018, the Group had a total of 236 employees (31 December 2017: 315 employees), including executive Directors. Total staff costs (including Directors' emoluments) were approximately S$8.7 million for the year ended 31 December 2018 as compared to approximately S$8.6 million for the year ended 31 December 2017.

The Group's employees are remunerated according to their job scope, responsibilities, and performance. On top of basic salaries, employees are also entitled to discretionary bonuses depending on their respective performance and the profitability of the Group. The Group's foreign workers are typically employed on term contracts depending on the period of their work permits, and subject to renewal based on their performance, and are remunerated according to their work skills.

The emoluments of Directors and senior management were reviewed by the remuneration committee of the Company, having regard to salaries paid by comparable companies, experience, responsibilities and performance of the Group, and approved by the Board.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The following is a comparison between the Group's business plans as set out in the Prospectus and the Group's actual business progress for the year ended 31 December 2018:

Business plan as set out in the Prospectus	Actual business progress as at 31 December 2018
Recruitment of addition 36 staff (senior supervisors, skilled workers and operators) in order to further strengthen our manpower	The Group is in the process of identifying quality candidates for the purpose of filling its open positions.
Acquisition of additional machinery and equipment for business expansion and consolidation of market position	The Group had committed and was in progress to purchase 4 units of machines at approximately S$0.3 million for building construction and general contractor works.
Reconfiguration of our current properties and rental of new office	Bank balances of approximately S$0.2 million had been utilised to renovate and reconfigure office at 20 Ang Mo Kio Industrial Park 2A and 52 Tuas View Square.
Purchase of software and provision of staff training to enhance productivity	The Group had taken action, purchasing and enrolment is in progress.
General working capital	The Group had utilised approximately S$0.2 million to finance working capital requirement of on-going projects.

USE OF LISTING PROCEEDS

The shares of the Company were listed on GEM of the Stock Exchange on 7 November 2018 for which the Company issued 120,000,000 new shares. The net listing proceeds from the share offer received by the Company, after deducting related listing expenses, were approximately HK$25.5 million (approximately S$4.5 million), out of which S$0.4 million has been utilised as at 31 December 2018. These proceeds are intended to be applied in the manner as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The future plan and scheduled use of proceeds as disclosed in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds were applied with consideration of the actual development of business and market. As of 31 December 2018, the Group does not anticipate any change to the plan as to the use of listing proceeds. The majority of the unused net proceeds have been placed with licenced bank in Singapore and Hong Kong.

As at 31 December 2018, the net listing proceeds has been applied and utilised as follows:

Use of net proceeds	Total net proceeds received (S$' 000)	Approximate percentage of total net proceeds (%)	Utilised as at 31 December 2018 (S$'000)	Total remaining net proceeds available as at 31 December 2018 (S$' 000)
Recruitment of addition 36 staff	2,025	45	–	2,025
Acquisition of additional machinery and equipment	1,801	40	–	1,801
Reconfiguration of our current properties and rental of new office	180	4	180	0
Purchase of software and provision of staff training to enhance productivity	45	1	–	45
General working capital	450	10	248	202
Total	4,501	100%	428	4,073

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

Up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the year ended 31 December 2018.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT

Executive Directors

Mr. Ho Lien Hwai ("Mr. Ho"), aged 52, is the Chairman, an executive Director, the Chief Executive Officer and one of the controlling shareholders (the "Controlling Shareholders") (within the meaning of the GEM Listing Rules) of our Company. He was appointed as managing director of our Group in January 2003 and a Director on 8 February 2018, and re-designated as an executive Director on 16 March 2018. Mr. Ho is one of the founders of our Group and has been serving as a director of Hon Industries Pte. Ltd. and Energy Turbo Limited since November 2002 and February 2018 respectively. He is a member of the Remuneration Committee of our Company. Mr. Ho is responsible for the overall management and strategic planning of the growth and operation of our Group.

Mr. Ho graduated from The National University of Singapore with a Degree of Bachelor of Engineering (Civil) in July 1991 and has successfully completed a number of building construction and management courses from 1992 to 2009.

He has over 28 years of experience in the construction industry. Prior to founding our Group, Mr. Ho had worked as project engineer, project manager and project director of various companies in Singapore which are principally engaged in the business of construction of buildings and civil engineering.

Ms. Ng Mei Yun ("Ms. Ng"), aged 40, is an executive Director. Ms. Ng joined our Group in June 2005 as quantity surveyor. She was promoted to senior quantity surveyor of our Group in July 2008, associate director of our Group in August 2013, senior associate director of our Group in January 2017 and chief procurement officer of our Group in July 2017. She was appointed as a Director on 8 February 2018 and re-designated as an executive Director on 16 March 2018. She is a member of the Nomination Committee of our Company.

Ms. Ng is primarily responsible for overseeing the procurement and contract department and the management, administration and supervision of the acquisition programmes of our Group.

Ms. Ng obtained a certificate in Technology (Quantity Surveying) from Tunku Abdul Rahman College in Malaysia in October 1999. She subsequently graduated from Sheffield Hallam University in the United Kingdom with a Degree of Bachelor of Science in Building Construction Management in September 2002.

Ms. Ng has over 15 years of experience in the construction industry, specialising in contract administration. Prior to joining our Group, Ms. Ng worked as a quantity surveyor in First Link Engineering & Trading Pte Ltd (currently known as Hon Builder Pte. Ltd.) from July 2004 to May 2005.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT

Mr. Lim Shi Min ("Mr. Lim"), aged 48, is an executive Director and one of the Controlling Shareholders of our Company. He joined our Group on 1 October 2003 and has been serving as a director of Hon Industries and Energy Turbo since October 2003 and February 2018 respectively. He was appointed as chief operating officer on 1 July 2017. He was appointed as Director on 8 February 2018 and re-designated as an executive Director on 16 March 2018. Mr. Lim is responsible for overseeing the day-to-day operations and project management and resources allocation of our Group.

Mr. Lim graduated from Ngee Ann Polytechnic in Singapore with a Diploma in Electrical Engineering in August 1991. Mr. Lim is also qualified and licenced by the Energy Market Authority of Singapore as an Electrical Technician.

Prior to joining our Group, Mr. Lim was a project manager for Victor Engineering & Trading Pte Ltd. in Singapore, where he was principally responsible for designing, installing and managing electrical works from April 1994 to January 2002. From January 2002 to October 2003, Mr. Lim was a director in First Link Engineering & Trading Pte Ltd (currently known as Hon Builder Pte. Ltd.) where he was primarily responsible for designing and installing electrical and mechanical systems.

Independent Non-executive Directors

Mr. Ng Chye Kim ("Mr. Ng"), aged 67, was appointed as an independent non-executive Director on 4 October 2018. He is the chairman of the Remuneration Committee and a member of the Audit Committee of our Company.

Mr. Ng obtained a Certificate in Builders' Quantities (Measurement) and a Certificate in Builders' Quantities Estimating and Final Accounts from the City and Guilds of London Institute in 1977. He was elected as a member of the Australian Institute of Quantity Surveyors in September 2014.

Mr. Ng has over 43 years of experience in the construction industry and quantity surveying. Since October 1975, he has been working with Rider Levett & Bucknall LLP in Singapore, where he joined as an assistant quantity surveyor and is currently working as chief estimator and is mainly responsible for performing cost control functions.

Mr. Lau Wang Lap ("Mr. Lau"), aged 39, was appointed as an independent non-executive Director on 4 October 2018. He is the chairman of the Audit Committee and a member of the Nomination Committee of our Company.

Mr. Lau graduated from the City University of Hong Kong with a Degree of Bachelor of Business Administration in Accountancy in November 2003. Mr. Lau became a member of the Hong Kong Institute of Certified Public Accountants in May 2007. Mr. Lau obtained a Degree of Master of Business Administration from the University of Strathclyde through distance learning in November 2013.

Mr. Lau has over 15 years of experience in accounting and finance. Since November 2011, he has been working with Bortland Bros. Consulting Limited as managing director, where he is mainly responsible for internal control review, tax planning and provision of consulting services.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT

Mr. Chan Shun Yin ("Mr. Chan"), aged 32, was appointed as an independent non-executive Director on 4 October 2018. He is the chairman of the Nomination Committee and a member of the Remuneration Committee and Audit Committee of our Company.

Mr. Chan graduated from the University of Hong Kong with a Degree of Bachelor of Laws in December 2009. Mr. Chan obtained the Postgraduate Certificate in Laws from the University of Hong Kong in August 2010. Mr. Chan was admitted as a solicitor of the High Court of Hong Kong in January 2013.

Mr. Chan has over 8 years of experience in the legal field, specialising in corporate and commercial matters. In September 2010, Mr. Chan began working for Chiu & Partners as a trainee solicitor and from February 2013 to March 2018, he has been an assistant solicitor of the firm's corporate finance department. Currently, Mr. Chan is the partner of Justin Chow & Co. Solicitors LLP. Mr. Chan's experience includes advising on initial public offerings, advising Hong Kong listed companies on various fundraising exercises, transactions and listing rules related compliance matters.

Senior management

Ms. Kwan Ai Joo ("Ms. Kwan"), aged 35, is the Senior Financial Controller of our Group. Ms. Kwan joined our Group in November 2006 as accounts cum administrative assistant, and was promoted to accounts executive, financial controller and Senior Financial Controller of our Group in July 2007, July 2014 and January 2017 respectively. She is primarily responsible for managing the financial risk, financial planning and record keeping of our Group.

Ms. Kwan graduated from SEGi College in Malaysia with a Diploma in Accounting in March 2007. Prior to joining our Group, Ms. Kwan worked as an account executive in Golden Hill Forest Sdn Bhd in Malaysia from September 2005 to September 2006 where her primary responsibilities included handling full set of accounts.

Mr. Tan Cheng Kiang ("Mr. J Tan"), aged 54, is the Chief Marketing Officer of our Group. He is primarily responsible for defining marketing strategies to support our Group's overall strategies and objectives. Mr. J Tan joined our Group in March 2008 as M&E associate director and he was promoted to project director, deputy managing director and Chief Marketing Officer of our Group in July 2010, November 2015 and July 2017 respectively.

Mr. J Tan obtained a Diploma in Public Health Engineering from Ngee Ann Polytechnic in Singapore in August 1986 and an Advanced Diploma in Building Services Engineering by Ngee Ann Polytechnic in Singapore in August 1994. Mr. J Tan subsequently obtained a Degree of Bachelor of Technology (Mechanical Engineering) from The National University of Singapore in December 2002.

Mr. J Tan completed the OHSAS 18001:2007 Transition Auditor Training Course in October 2008 and the ISO 9001:2008 QMS Internal Auditor Training Course in September 2009 offered by JQ Management Pte Ltd.

Prior to joining our Group, Mr. J Tan worked in Hussmann Tempcool (Singapore) Pte Ltd between July 1991 and August 2005, during which he worked as assistant engineer since July 1991 and he was promoted to project engineer in July 1993 and manager of the air-conditioning division in March 2003. He worked as a project director in Johnson Controls (S) Pte Ltd from September 2005 to February 2008, where he was primarily responsible for the management of mechanical and electrical installations.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT

Ms. Goy Yi Ting ("Ms. Goy"), aged 27, is the Financial Controller of our Group. She is primarily responsible for assisting the Senior Financial Controller in managing the financial risk, financial planning and record keeping of our Group. Ms. Goy joined our Group in November 2017 as finance manager and was promoted to Financial Controller in January 2018.

Ms. Goy graduated from Oxford Brookes University in the United Kingdom with a Degree of Bachelor of Science in Applied Accounting by distance learning in September 2012. Ms. Goy was awarded by the Association of Chartered Certified Accountants with the ACCA Advanced Diploma in Accounting and Business in August 2011. Ms. Goy was admitted as a member of the Association of Chartered Certified Accountants in October 2016.

Prior to joining our Group, Ms. Goy worked as audit assistant in Robert Tan & Co., an accounting firm in Singapore, from May 2013 to December 2014. From May 2015 to June 2017, Ms. Goy worked in Baker Tilly TFW LLP in Singapore as senior associate and later promoted to senior I in its assurance department, where she carried out audit work on and off clients' sites in various industries.

Mr. Ng Chit Sing ("Mr. Ng") was appointed as our company secretary in March 2018. He is the chief executive officer of IN Corporate Services Limited specialising in the provision of corporate secretarial services to listed issuers and private companies.

Mr. Ng is currently acting as named company secretary/joint company secretary of certain companies listed on the Main Board or GEM of the Stock Exchange. Mr. Ng was admitted as an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in England in July 2000. Mr. Ng received a Bachelor's Degree in Social Sciences in 1996 and a Bachelor's Degree in Laws in August 2008.

REPORT OF THE DIRECTORS

The Board of Directors have pleasure in presenting their first annual report together with the audited consolidated financial statements of the Group (the "Consolidated Financial Statements") for the year ended 31 December 2018 (the "Year").

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company and the Group is principally engaged in the provision of construction services. The Group is actively involved as a main contractor in both private and public sector projects which include institutional, industrial, commercial and residential projects. The revenue was principally derived from project works for our (i) building and infrastructure projects; (ii) interior decoration projects; and (iii) term contracts. Details of the principal activities of the principal subsidiaries of the Company are set out in Note 42 to the Consolidated Financial Statements.

The results of the Group for the Year are set out in the section headed "Consolidated Statement of Profit or Loss and Other Comprehensive Income" on page 79 in this report.

The business review of the Group for the Year together the future business development are set out in the section headed "Management Discussion and Analysis" on pages 6 to 15 of this annual report. The discussion therein forms part of the report of Directors.

REORGANISATION AND SHARE OFFER

The Company was incorporated and registered as an exempted company in Cayman Islands with limited liability on 8 February 2018. Its shares were listed on GEM of the Stock Exchange on 7 November 2018. Pursuant to the reorganisation of the Group in connection with the listing of the shares of the Company on GEM (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 8 October 2018. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group Structure" in the Prospectus.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We are committed to building an environmentally-friendly corporation and minimising our impact on the environment. Discussion on the environmental policies and performance is set out in the section headed "Environmental, Social and Governance Report" on pages 50 to 72 in this report. The discussion therein forms part of the report of the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

Sufficient resources and training have been allocated and provided to ensure the on-going compliance with applicable laws and regulations.

The Group is principally engaged in the provision of construction services in Singapore and is thus subject to the rules and regulations implemented by the Energy Market Authority of Singapore and the Public Utilities Board, which regulate activities of contractors. The Company confirmed that save as disclosed below, the Group had obtained all the registrations and certifications required for its business and operations in Singapore, and had complied with the applicable laws and regulations in Singapore in all material respects during the Year.

However, the Board was aware of various incidences of non-compliance with the relevant laws and regulations that have immaterial impacts on the Group's business where the Group is operating. Details are set out in the paragraph headed "Environmental non-compliance" in the section headed "Business" in the Prospectus and paragraph headed "contingent liabilities" in the section headed "Management Discussion and Analysis" in this report.

RELATIONSHIP WITH KEY PARTIES

The success of the Group also depends on the support from key parties which comprise customers, suppliers, employees and shareholders.

Customers

Our customers include (i) Singapore Government agencies; and (ii) private companies in Singapore. Open tenders put up by Singapore Government agencies are posted on GeBIZ while tenders for private organisations are mainly by invitation. In addition, we routinely monitor BCI Asia for new tender opportunities in both the public and private sectors in the building and construction industry in Singapore. Also, we are often given referrals for private sector customers by architects or external consultants with whom we have good working relationships with.

During the Year, revenue derived from the Group's top five customers accounted for approximately 85.7% (31 December 2017: 91.3%) of the total revenue.

Suppliers and subcontractors

We maintain good working relationships with our subcontractors and suppliers and do not foresee any material difficulties in sourcing for services and materials in the future. Our project team will hold regular meetings with our subcontractors to discuss progress and issues (if any) encountered or anticipated in a project.

REPORT OF THE DIRECTORS

Employees

The Group regards its employees as one of its most important and valuable assets. We strive to reward and recognise employees who demonstrate outstanding performance by providing a competitive remuneration package, appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

We also place great importance in establishing a safe and healthy work environment for our employees. To ensure the quality of our services, the Group has established a set of environmental, health and workplace safety ("EHS") policies and have committed to high safety standard and environmental impact control. We have been continuously accredited with safety certifications such as ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007 and bizSAFE STAR certifications for our building and construction services, a testament to the systems and procedures that we have in place to deliver high quality services and that conform to Singapore's EHS regulations.

Shareholders

The principal goal of the Group is to maximise the return to the shareholders of the Company. The Group will focus on our core business for achieving sustainable profit growth and rewarding the shareholders with dividend payouts taking into account the business development needs and financial health of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

The business operations and results of the Group may be affected by various factors, some of which are external causes and some are inherent to the business. The Board is aware that the Group is exposed to various risks and the principal risks and uncertainties are summarised below:

1. **Customer concentration risk**

   As at 31 December 2018, our top five customers accounted for over 90% of our total revenue and any significant decrease in projects secured from any one of them or any change in their creditworthiness may affect our business, operations and financial results. The Group has not entered into any long-term agreements with our top five customers. There is no assurance that these top five customers will continue to use our services at fees acceptable to our Group. If any of our top five customers were to terminate their business relationship with us entirely, there can be no assurance that we would be engaged by other customers to replace any such loss. In addition, if any of our customers fail to settle our invoice in accordance with the agreed credit terms, our Group's working capital position may be adversely affected. Bad debt provisions or write-offs may also be required for receivables, which will have an adverse effect on our profitability. If there is a change in our customers' creditworthiness, our results of operations would be materially and adversely affected.

2. **Non-recurring nature of our projects**

   Our contracts are awarded on a project basis and our revenue is not recurring in nature. The Group cannot guarantee that we will continue to secure new projects from our customers after the completion of the existing projects. Any failure to do so could materially and adversely affect our financial performance.

3. **Difficulties in recruiting and retaining skilled staff and/or foreign workers**

   There is high labour demand within the building and construction industry in Singapore and it is increasingly hard to employ skilled and licenced foreign workers due to the tightened policies on the employment of foreign workers and the labour shortage in Singapore. Any changes in the policies of the foreign workers' countries of origin may also affect the supply of foreign workers and cause disruptions to our operations, resulting in a delay for the completion of our projects.

   In addition, we may also face difficulties in retaining skilled staff and/or foreign workers due to unforeseen fluctuations in labour costs. We may need to take into consideration such salary trends when recruiting or retaining skilled local talents and/or foreign workers as we would want to offer more competitive remuneration packages in order to attract higher skilled labour which may result in increased operating expenses thereby affecting our financial performance.

SHARE CAPITAL

As at 31 December 2018, 480,000,000 shares of the Company were in issue. Details of the movement in share capital during the Year are set out in Note 30 to the Consolidated Financial Statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the Consolidated statement of changes in equity on page 83 and Note 45 to the Consolidated Financial Statements respectively.

As at 31 December 2018, no reserve was available for distribution to the owners of the Company.

DIVIDEND

The Board has resolved not to recommend the declaration of a final dividend to shareholders of the Company for the Year.

During the year ended 31 December 2017, an interim dividend in aggregate amount of S$3,499,000, has been declared by the Company's subsidiaries, Hon Industries Pte. Ltd. ("Hon Industries") and is settled through the amounts due from shareholders.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SECURITIES

The Company has not redeemed any of its shares during the period from 7 November 2018, the Listing Date, to 31 December 2018. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares from 7 November 2018 to 31 December 2018.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Year are set out in Note 16 to the Consolidated Financial Statements.

CHARITABLE DONATIONS

During the Year, charitable and other donations made by the Group amounted to approximately S$1,000 (31 December 2017: S$7,388).

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company (as defined below), no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Year or subsisted at the end of the Year.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 33 to 49 in this report.

ANNUAL GENERAL MEETING ("AGM")

The AGM will be held on 9 May 2019 (Thursday) and the notice convening such meeting will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 May 2019 (Monday) to 9 May 2019 (Thursday) (both days inclusive), during which period no transfers of shares will be registered. To determine the entitlement to attend and vote at the AGM of the Company, all transfer document, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrars in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 3 May 2019 (Friday).

THREE YEARS FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last three financial years is set out on page 164. This summary does not form part of the Consolidated Financial Statements.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS, SUPPLIERS AND SUB-CONTRACTORS

The percentages of purchases and sales for the Year attributable to the Group's major suppliers, sub-contractors and customers are as follows:

Purchases	
— the largest supplier	1.2%
— five largest suppliers in aggregate	4.8%
Sub-contracting cost	
— the largest sub-contractor	17.9%
— five largest sub-contractors in aggregate	33.2%
Sales	
— the largest customer	45.2%
— five largest customers in aggregate	85.7%

During the Year, none of the Directors, their respective close associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in any of the Group's five largest customers or suppliers or sub-contractors.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company who held office during the Year were:

Executive Directors

Mr. Ho Lien Hwai *(Chairman and Chief Executive Officer)*
Ms. Ng Mei Yun
Mr. Lim Shi Min

Independent Non-executive Directors

Mr. Ng Chye Kim
Mr. Lau Wang Lap
Mr. Chan Shun Yin

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing on 7 November 2018, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year commencing on 7 November 2018, which may be terminated by not less than three months' notice in writing served by either party on the other.

All Directors are subject to retirement by rotation and re-election at annual general meeting, and will continue thereafter until terminated in accordance with the terms of the service contract/letter of appointment.

REPORT OF THE DIRECTORS

In accordance with the Article 83(3) of Company's Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Ho Lien Hwai, Ms. Ng Mei Yun, Mr. Lim Shi Min, Mr. Ng Chye Kim, Mr. Lau Wang Lap and Mr. Chan Shun Yin, being all Directors of the Company, shall retire from office at the AGM to be held on 9 May 2019. All of the retired Directors, being eligible, offer themselves for re-election, at the AGM.

In accordance with the Article 84(1) of Company's Articles of Association, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation.

Apart from the foregoing, no Director proposed for re-election at the AGM has a service contract/letter of appointment which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONFIRMATION ON INDEPENDENCE

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. Accordingly, the Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group are disclosed in the section headed "Biographical Details of the Directors and Senior Management on pages 16 to 19 of this annual report.

CHANGES OF DIRECTORS' INFORMATION UNDER RULE 17.50A(1) OF THE GEM LISTING RULES

The Company is not aware of any change in the Directors' information which is required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules since the publication of the Prospectus.

EMOLUMENT POLICY

A remuneration committee was set up by the Board to develop the Group's emolument policy and structure for remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the directors and senior management and comparable market practices.

DIRECTORS' EMOLUMENTS

The Directors' emoluments are subject to shareholders' approval at annual general meeting of the Company. Other emoluments are determined by the Board with reference to the recommendations by remuneration committee of the Company, directors' duties, responsibilities and performance and the results of the Group.

Details of the Directors' emoluments are set out in Note 13 to the Consolidated Financial Statements of this annual report.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Company's Articles of Association, every Director or other officers of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses as a result of any act or failure to act in carrying out his/her functions.

Such permitted indemnity provision (with the meaning in Section 469 of the Companies Ordinance) is currently in force and was in force during the Year. In addition, the Company has also maintained Directors' and officers' liability insurance since the listing date to 31 December 2018, which provides appropriate cover for the directors and officers of the Group.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Save for the service contract/letter of appointment with the Directors, no other transactions, arrangements or contracts that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had, directly or indirectly, a material interest subsisted at the end of the Year or at any time during the Year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2018.

REPORT OF THE DIRECTORS

NON-COMPETITION UNDERTAKING

Mr. Ho Lien Hwai, Mr. Lim Shi Min and Bizstar Global Limited (the "Covenantors", each a "Covenantor") have entered into the deed of non-competition (the "Deed of Non-competition") dated 4 October 2018 in favour of our Company, under which each of them has irrevocably and unconditionally, jointly and severally, warranted and undertaken to our Company that they will not, and will procure any Covenantor and his/its close associates (each a "Controlled Person" and collectively, the "Controlled Persons") and any company directly or indirectly controlled by the Covenantor (which for the purpose of the Deed of Non-competition, shall not include any member of our Group) (the "Controlled Company") not to, except through any member of our Group, directly or indirectly (whether on its own account or with each other or in conjunction with or on behalf of any person or company, or as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise), carry on, engage in, invest or acquire or hold any rights or be interested or otherwise involved in (in each case whether as a shareholder, director, partner, agent or otherwise and whether for profit, reward or otherwise) any business that is similar to or in competition with or is likely to be in competition directly or indirectly with any business carried on by any member of our Group from time to time or in which any member of our Group is engaged or has invested or is otherwise involved in any territory that our Group carries on our business from time to time.

The Company has received the confirmation from the Covenantors in respect of their compliance with the terms of Deed of Non-competition for the period from 7 November 2018, the listing date, to 31 December 2018.

The independent non-executive Directors had reviewed and confirmed that the Covenantors/Controlling Shareholders have complied with the non-competition undertaking and the non-competition undertaking has been enforced by the Company in accordance with its terms for the period from 7 November 2018, the listing date, to 31 December 2018.

Saved as disclosed above, during the period from 7 November 2018, the Listing Date, to 31 December 2018, none of the directors, the substantial shareholders or the management shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group.

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme ("Share Option Scheme"), which was approved by written resolutions passed by the then sole Shareholder of the Company on 4 October 2018 and became unconditional on 7 November 2018. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

The purpose of the Share Option Scheme is to advance the interests of the Company and the shareholders by enabling the Company to grant options to attract, retain and reward the eligible persons namely any directors, employees, consultants, advisers, any provider of goods and/or service, and any customers of the Group, and to provide the eligible persons an incentive or reward for their contribution to the Group and by enabling such persons' contribution to further advance the interests of the Group.

The Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption to 3 October 2028, after which period no further options will be granted or offered.

As at 31 December 2018, there was no option outstanding, granted, cancelled, exercised or lapsed.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "13. Share Option Scheme" in section headed "Statutory and General Information" in Appendix V to the Prospectus and Note 34 to the Consolidated Financial Statements.

Rights to Acquire Shares or Debentures

Apart from the aforesaid Share Option Schemes, at no time during the year ended 31 December 2018 was the Company or any associated corporation a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, or had exercise any such rights in the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests or short positions of Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(i) Long Position in the Ordinary Shares and Underlying Shares of the Company

Interests in the Company

	Interests in Ordinary Shares						
Name of director	Personal interests	Family interests	Corporate interests	Total interests in ordinary shares	Total interests in underlying shares	Aggregate interests	% of the Company's issued voting shares
Mr. Ho Lien Hwai [Note1]	–	–	360,000,000	360,000,000	–	360,000,000	75.00%
Mr. Lim Shi Min [Note2]	–	–	360,000,000	360,000,000	–	360,000,000	75.00%

Notes:

1. The entire issued share capital of Bizstar Global Limited ("Bizstar Global") was legally and beneficially owned as to 70% by Mr. Ho Lien Hwai ("Mr. Ho"). Accordingly, Mr. Ho was deemed to be interested in 360,000,000 shares held by Bizstar Global by virtue of the SFO. Mr. Ho is an executive Director of the Company.

2. The entire issued share capital of Bizstar Global was legally and beneficially owned as to 30% by Mr. Lim Shi Min ("Mr. Lim"). Accordingly, Mr. Lim was deemed to be interested in 360,000,000 shares held by Bizstar Global by virtue of the SFO. Mr. Lim is an executive Director of the Company.

(ii) Interests in the Associated Corporation

Name of directors	Name of associated corporation	Capacity/Nature	No. of shares held	% of the issued voting shares of associate corporation
Mr. Ho	Bizstar Global	Beneficial interest in controlled corporation	7	70%
Mr. Lim	Bizstar Global	Beneficial interest in controlled corporation	3	30%

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the standards of dealing by Directors as referred to in Rule 5.48 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND/OR SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, the following persons/entities (not being Directors or chief executive of our Company) have an interest or a short position in the Shares or the underlying Shares which were disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO, were as follows:

Long Position in the Ordinary Shares and Underlying Shares of the Company

Name of shareholders	Capacity	Number of shares held	% of the Company's issued voting shares
Bizstar Global	Beneficial owner	360,000,000	75.00%
Ms. Yap Lay Kheng [Note 1]	Interest of spouse	360,000,000	75.00%
Ms. Kwan Yin Leng [Note 2]	Interest of spouse	360,000,000	75.00%

Notes:

1. Ms. Yap Lay Kheng is the spouse of Mr. Ho. Therefore, Ms. Yap Lay Kheng was deemed to be interested in all the shares held by Mr. Ho pursuant to the SFO.

2. Ms. Kwan Yin Leng is the spouse of Mr. Lim. Therefore, Ms. Kwan Yin Leng was deemed to be interested in all the shares held by Mr. Lim pursuant to the SFO.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

RELATED PARTIES TRANSACTIONS

During the year ended 31 December 2018, details of the significant related party transactions undertaken in the normal course of business are set out in the Note 37 to the Consolidated Financial Statements, and none of which constitutes a disclosable "connected transaction" or "continuing connected transaction" as defined under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Company has certain exempted continuing connected transactions which are fully exempted and are not subject to the reporting, annual review, announcement and independent shareholders' approval under Chapter 20 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained the prescribed public float under the GEM Listing Rules of at least 25% of the Company's total number of issued shares which was held by the public.

AUDITORS

The Consolidated Financial Statements have been audited by Deloitte & Touche LLP, who retire and, being eligible, offer themselves for re-appointment. A resolution to re-appoint the retiring auditors is to be proposed at the AGM.

By order of the Board
Hon Corporation Limited

Mr. Ho Lien Hwai
Chairman and Chief Executive Officer

Singapore, 21 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

The Group is committed to maintaining high corporate governance standards to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company's corporate governance practices are based on the principles and code provisions as set out in the corporate governance codes (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules.

The Company's Shares have been listed on GEM of the Stock Exchange since 7 November 2018 (the "Listing Date"). The Board considers that the Company has complied with all the applicable principles and code provisions as set out in the CG Code during the period from the Listing Date to 31 December 2018 (the "Review Period") with the exception of Code A.2.1, which requires the roles of chairman and chief executive be different individuals. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Ho Lien Hwai ("Mr. Ho") currently holds both positions. Since establishment of the Group in 2002, Mr. Ho has been the key leadership figure of the Group who has been deeply involved in the formulation of business strategies and determination of the overall direction of the Group. He has also been chiefly responsible for the Group's operations as he directly supervises the Directors (other than himself) and members of our senior management. Taking into account the continuation of the implementation of our business plans, the Directors (including the independent non-executive Directors) consider that Mr. Ho is the best candidate for both positions and the present arrangements are beneficial to and in the interests of our Company and our shareholders as a whole.

Details of compliance of Code provisions (including certain provisions not fully applicable) due to the short period of time during the Review Period are explained in this corporate governance report.

Code of Conduct for Securities Transactions by Directors

The Company has adopted the Code of Ethics and Securities Transactions (the "Model Code") on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the Review Period.

The Board has also adopted the Model Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted during the Review Period after making reasonable enquiry.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS

Responsibilities

The Board assumes responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs. The management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Company. The delegated functions and work tasks are reviewed by the Board periodically.

Composition

Throughout the Review Period, the Board comprises six Directors. As at the date of this annual report, there are three executive Directors and three independent non-executive Directors of the Company. The composition of the Board is as follows:

Executive Directors

Mr. Ho Lien Hwai *(Chairman and Chief Executive Officer)*
Ms. Ng Mei Yun
Mr. Lim Shi Min

Independent Non-executive Directors

Mr. Ng Chye Kim
Mr. Lau Wang Lap
Mr. Chan Shun Yin

During the Review Period, there was no change in the composition of the Board.

The relationship among members of the Board and biographical details and responsibilities of the Directors as well as the senior management are set out in the section "Biographical Details of the Directors and Senior Management" on pages 16 to 19 in this annual report. The updated list of Directors and their role and function are published at the GEM website and the Company's website at www.honindustries.com.sg.

Save as disclosed in the section headed "Biographical Details of the Directors and Senior Management" to this annual report, the Directors have no other financial, business, family or other material/relevant relationships with each other.

Chairman and Chief Executive Officer

Mr. Ho currently holds both positions as Chairman and the Chief Executive Officer of the Company. Since establishment of the Group in 2002, Mr. Ho has been the key leadership figure of the Group who has been deeply involved in the formulation of business strategies and determination of the overall direction of the Group. He has also been chiefly responsible for the Group's operations as he directly supervises the Directors (other than himself) and members of our senior management.

THE BOARD OF DIRECTORS *(Continued)*

Independent Non-executive Directors

The Company has throughout the Review Period met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications, accounting or related financial management expertise. At all times during the Review Period, the independent non-executive Directors represent at least one-third of the Board pursuant to Rule 5.05A of the GEM Listing Rules.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence.

Confirmation of Independence

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules to the Company in respect of their independence for the Review Period. Accordingly, the Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines throughout the Review Period.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing on 7 November 2018, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year commencing on 7 November 2018, which may be terminated by not less than three months' notice in writing served by either party on the other.

All Directors are subject to retirement by rotation and re-election at annual general meeting, and will continue thereafter until terminated in accordance with the terms of the service agreement/letter of appointment.

In accordance with the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Such retiring Directors shall be eligible for re-election at the annual general meeting.

Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

THE BOARD OF DIRECTORS *(Continued)*

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors take decisions objectively in the interests of the Company.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company.

The Board reserves its decisions for all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. The Board has delegated the responsibility of implementing the strategies and the daily operations to the management of the Group under the leadership of executive Directors. The Chief Financial Officer and/or the company secretary attend all regular Board meetings and Board committee meetings to advise on accounting and financial, corporate governance and statutory compliance matters. Senior management has formal or informal contact with the Board members as and when necessary.

Board/Board Committee/and General Meetings

According to code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication.

According to code provision A.5.2 of the CG Code, nomination committee should review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy.

According to code provision C3.3 (e)(i) of the CG Code, audit committee must meet, at least twice a year, with the auditors of the Company.

As the Company's Shares were listed on the GEM of the Stock Exchange on 7 November 2018, the Company had held one audit committee meeting and one Board meeting on 12 November 2018 to consider and approve the third quarterly results announcement and report for the nine months ended 30 September 2018 of the Group. The Company did not hold remuneration committee meeting and nomination committee meeting during the Review Period due to its short period after listing.

The Company expects to convene at least four regular board meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the CG Code. The Company held Board meeting and all Board committee meetings on 21 March 2019 in compliance with the CG Code and will also convene the annual general meeting with reference to the Listing Rules and CG Code onwards.

THE BOARD OF DIRECTORS *(Continued)*

Directors' Attendance at Board/Board Committee/General Meetings

Here below are details of all Directors' attendance at the Board meeting and Board committee meetings held during the Review Period and up to the date of this report:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Total number of meetings held	2	3	1	1
	Number of meetings attended			
Executive Directors				
Mr. Ho Lien Hwai	2	N/A	1	N/A
Ms. Ng Mei Yun	2	N/A	N/A	1
Mr. Lim Shi Min	2	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Ng Chye Kim	2	3	1	N/A
Mr. Lau Wang Lap	2	3	N/A	1
Mr. Chan Shun Yin	2	3	1	1

Induction and Continuous Professional Trainings of Directors

Arrangements have been made to provide each new director a comprehensive, formal and tailored induction on the first occasion of his/her appointment and continuing briefing and professional development when necessary.

Each newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements.

The Directors have also been informed of the requirement under A.6.5 of the CG Code regarding continuous professional development.

The Group, if necessary, will keep on inviting professionals to conduct trainings to senior personnel (including all directors) of the Company so as to refresh their knowledge and to discharge their duty as Director of a listed company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established three Board committees, namely the audit committee, the remuneration committee and the nomination committee for overseeing specific aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the GEM website of the Stock Exchange.

Audit Committee

The Company established an audit committee on 4 October 2018 with written terms of reference in compliance with Rule 5.28 to 5.33 of the GEM Listing Rules and paragraphs C3.3 and C3.7 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The terms of reference of the audit committee are available on the websites of the Company and the Stock Exchange.

The primary duties of our audit committee are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and information and provide advice in respect of financial reporting and oversee the risk management and internal control systems of the Company.

The composition of the audit committee during the Review Period and up to the date of this report is as follows:

Mr. Lau Wang Lap *(Chairman)*
Mr. Ng Chye Kim
Mr. Chan Shun Yin

All of the members of the audit committee are independent non-executive Directors. None of them is a former partner of the Company's existing auditing firm within 2 years immediately prior to their respective date of appointment. All of them do not have material interest in any principal business activity of nor is or was involved in any material business dealings with the Group or with any core connected persons (as defined in the GEM Listing Rules) of the Group within one year immediately prior to their respective date of appointment.

Mr. Lau Wang Lap, who has appropriate professional qualifications and experience in accounting matters, was appointed as the Chairman of the audit committee.

An audit committee meeting was held on 12 November 2018 to review the third quarterly results announcement and report for the nine months ended 30 September 2018 of the Group. Another two audit committee meetings were held on 23 January 2019 and 21 March 2019, respectively, to discuss the annual audit planning for the year ended 31 December 2018, and to review the annual results announcement and annual report for the year ended 31 December 2018 of the Group, internal control and risk management system.

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

The summary of work of the audit committee meeting held on 21 March 2019 is as follows:

— To meet with the external auditors, review and make recommendation to the Board for approving the annual financial statement of the Group;

— To review and approve audit fee;

— To review the terms of engagement and make recommendation to the Board for the re-appointment of auditors of the Company, subject to the Shareholders' approval at the annual general meeting;

— To review the non-competition undertaking by the Controlling Shareholders of the Company;

— To review the effectiveness of the Company's risk management and internal control systems; and

— To review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The audit committee has not taken a different view from the Board regarding the selection and re-appointment of external auditors.

Remuneration Committee

The Company established a remuneration committee on 4 October 2018 with written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and the CG Code. The terms of reference of the remuneration committee are available on the websites of the Company and the Stock Exchange.

The primary functions of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and the structure relating to all Directors and senior management of our Group, review performance-based remuneration and ensure none of our Directors determine their own remuneration.

The composition of the remuneration committee during the Review Period and up to the date of this report is as follows:

Mr. Ng Chye Kim *(Chairman)*
Mr. Ho Lien Hwai
Mr. Chan Shun Yin

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The remuneration committee is chaired by an independent non-executive Director and majority members of the Remuneration Committee are also independent non-executive Directors. Since its establishment on 4 October 2018, the remuneration committee did not hold any meeting during the Review Period due to a short period after its Listing on the Stock Exchange on 7 November 2018.

A remuneration committee meeting was held on 21 March 2019 to review the remuneration policy and structure and to make recommendations to the Board on determining the annual remuneration packages of the executive Directors and the senior management and other related matters.

The summary of work of the remuneration committee meeting held on 21 March 2019 is as follows:

— To review and recommend to the Board on the Group's remuneration policy and strategy;

— To review and recommend to the Board on the remuneration packages of the executive Directors and senior management; and

— To review and recommend to the Board on the Directors' fees of independent non-executive Directors.

Details of the emoluments paid to the Directors and highest paid individuals for the year ended 31 December 2018 are set out in Note 13 to the Consolidated Financial Statements.

Nomination Committee

The Company established a nomination committee on 4 October 2018 with written terms of reference in compliance with paragraph A.5 of the CG Code. The written terms of reference of the nomination committee are available on the websites of the Company and the Stock Exchange.

The primary functions of the nomination committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy; identify individuals suitably qualified as potential Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships with reference to the established board diversity policy of the Company; assess the independence of our independent non-executive Directors; and make recommendations to the Board on the appointment or reappointment of Directors.

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

The composition of the nomination committee during the Review Period and up to the date of this report is as follows:

Mr. Chan Shun Yin *(Chairman)*
Ms. Ng Mei Yun
Mr. Lau Wang Lap

The nomination committee is chaired by an independent non-executive Director and majority members of the nomination committee are also independent non-executive Directors. Since its establishment on 4 October 2018, the nomination committee did not hold any meeting during the Review Period due to a short period after its Listing on the Stock Exchange on 7 November 2018.

A nomination committee meeting was held on 21 March 2019 to review composition of the Board, assess the independence of independent non-executive Directors and recommend the Board on the re-election of directors.

The summary of work of the nomination committee meeting held on 21 March 2019 is as follows:

— To review the existing Board's structure, size and composition;

— To review the board diversity policy;

— To review the nomination policy;

— To review and assess the independence of the independent non-executive Directors; and

— To make recommendations on the retiring Directors at the 2019 AGM of the Company.

Board Nomination Policy

The Company adopted a nomination policy in compliance with the CG Code with effect from 1 January 2019, which establishes written guidelines to nomination committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors.

The Board, through the delegation of its authority to the nomination committee, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in business, finance and management skills critical to the Group's business to enable the Board to make sound and well considered decisions. Collectively, they have competencies in areas which are relevant and valuable to the Group.

BOARD COMMITTEES *(Continued)*

Nomination Process

The nomination committee shall assess whether any vacancy on the Board has been created or is expected on a regular basis or as required.

The nomination committee utilises various methods for identifying director candidates, including recommendations from Board members, management, and professional search firms. All director candidates, including incumbents and candidates nominated by Shareholders are evaluated by the nomination committee based upon the director qualifications. While director candidates will be evaluated on the same criteria through review of resume, personal interview and performance of background checks. The nomination committee retains the discretion to establish the relative weighting of such criteria, which may vary based on the composition, skill sets, age, gender and experiences of the collective Board rather than on the individual candidate for the purpose of diversity perspectives appropriate to the requirement of the Company's business.

Selection Criteria

The nomination committee will take into account whether a candidate has the qualifications, skills, experience and gender diversity that add to and complement the range of skills, experience and background of existing Directors by considering the highest personal and professional ethics and integrity of the director candidates, proven achievement and competence in the nominee's field and the ability to exercise sound business judgment, skills that are complementary to those of the existing Board, the ability to assist and support management and make significant contributions to the Company's success and such other factors as it may deem are in the best interests of the Company and its Shareholders.

The Company shall review and reassess the nomination policy and its effectiveness on a regular basis or as required.

Board Diversity Policy

The composition of the Board is reviewed on an annual basis by the nomination committee to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competence for informed decision-making and effective functioning. The Company adopted its own board diversity policy and recognises the benefits of having diversity in the composition of the Board.

The Company noted that people from different backgrounds and with different professional and life experience are likely to approach problems in different ways and accordingly, members of the Board with diverse backgrounds will bring different concerns and questions to the table, and allow the Board to consider a wider range of options and solutions when deciding on corporate issues and formulating policies for the Group. In determining the Board's composition and selection of candidates to the Board, nomination committee will consider factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, industry knowledge and length of service.

BOARD COMMITTEES *(Continued)*

Board Diversity Policy *(Continued)*

All Board appointments will be based on meritocracy, and candidates will be considered against the above selection criteria, having regard for the benefits of diversity on the Board, the business model and specific needs of the Group. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The nomination committee considers the existing size and composition of the Board are adequate and diversified for effective decision-making, taking into account the nature and scope of the Group's operations. The nomination committee has also monitored the implementation of the board diversity policy since its adoption, and also reviewed it to ensure its effectiveness and concluded that no revision to the policy is required at the last nomination committee meeting held.

Throughout the Review Period and as at the date of this annual report, the Board comprises six Directors, one of which is a female. The following tables further illustrate the diversity of the Board as of the date of this annual report:

	Age Group				Ethnicity		
Name of Director	30 to 39	40 to 49	50 to 59	Above 60	Singaporean	Malaysian	Chinese
Mr. Ho Lien Hwai			✓		✓		
Ms. Ng Mei Yun		✓				✓	
Mr. Lim Shi Min		✓			✓		
Mr. Ng Chye Kim				✓	✓		
Mr. Lau Wang Lap		✓					✓
Mr. Chan Shun Yin	✓						✓

	Educational background				Professional experience		
Name of Director	Engineering	Quantity Surveying	Accountancy	Law	Construction	Internal audit, tax and consultancy	Law
Mr. Ho Lien Hwai	✓				✓		
Ms. Ng Mei Yun		✓			✓		
Mr. Lim Shi Min	✓				✓		
Mr. Ng Chye Kim		✓			✓		
Mr. Lau Wang Lap			✓			✓	
Mr. Chan Shun Yin				✓			✓

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for presenting a balanced, clear and understandable assessment of financial reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The Board acknowledges its responsibility for the preparation of the Consolidated Financial Statements for the year ended 31 December 2018 which give a true and fair view of the state of affairs of the Group in accordance with the statutory requirements and accounting standards and other financial disclosure requirement under the GEM Listing Rules. The financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors about their reporting responsibilities is set out in the "Independent Auditors' Report" on pages 73 and 78 of the Consolidated Financial Statements.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is accountable for overseeing the Group's risk management and internal control systems and reviewing its effectiveness, while the management are responsible for implementing and maintaining the internal controls systems that covers governance, compliance, risk management, financial and operational controls to safeguard the Group's assets and stakeholders' interests. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Procedures are in place to identify major business risks and evaluate potential financial implications.

The internal control system is reviewed on an ongoing basis by the Board and the Audit Committee through engaging independent consultant.

The Group has formulated a risk management policy and adopted a three-tier risk management approach to identify, assess and manage different types of risks. At the first line of defence, business units are responsible for identifying, assessing and monitoring risk associated with each business or transaction. The management, as the second line of defence, defines rule sets and models, provide technical support, develops new system and oversees portfolio management. It ensures risks are within acceptable range and that the first line of defence is effective. As the final line of defence, the independent consultant, as an Internal Audit Function, assists the Audit Committee to review the first and second lines of defence.

The Group is committed to the identification, evaluation and management of risks associated with its business activities through ongoing assessment, by considering the likelihood and impact of each identified risk. The Group has implemented an effective control system which includes a defined management structure with limits of authority, a sound management system and periodic review of the Group's performance by the Audit Committee and the Board.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS *(Continued)*

Through the Audit Committee, the Board has conducted an annual review of the effectiveness of the Group's risk management and internal control systems for the Year, covering the material financial, operational and compliance controls, which are considered effective and adequate. The Audit Committee has reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions on an annual basis.

Based on the framework for risk management and internal control system established by the Group, the Board and the audit committee admitted that through the review of risk management and internal control systems of the Group, it can evaluate and improve its effectiveness. The Board, with the concurrence of the audit committee, considered that such systems including financial, operational and compliance were effective and adequate for the year ended 31 December 2018 based on the work performed and report prepared by the independent consultant as well as the confirmation letter received by the management. The Company will perform the ongoing assessment to update the all material risk factors on a regular basis. In any case, review on risk management and internal control system will be conducted annually.

Internal Audit

During the year ended 31 December 2018, the Group had engaged an independent internal control consultant to assess our overall internal controls and to give recommendations to make any enhancement. It was reported that there were no material deficiencies in relation to the Group's internal controls. The Board is of the view that the internal control measures of the Group are adequately and effectively monitor our business operations for the year ended 31 December 2018.

Inside Information

The Group has adopted and implemented its own disclosure policy aiming to provide a general guide to the Directors and senior management of the Company in handling of confidential information and/or monitoring of information disclosure pursuant to applicable laws and regulations in compliance with the GEM Listing Rules and Securities and Futures Ordinance ("SFO").

The disclosure policy provides the procedures and internal controls for the handling and dissemination of inside information by publication of the announcement to the websites of the Stock Exchange and the Company on a timely basis to enable the public, namely shareholders, institutional investors, potential investors and other stakeholders of the Company to access the latest information of the Group, unless such information fall within the safe harbours with the SFO. The management has notified all employees to comply with the disclosure policy. Briefing and training on the implementation of the policy have been provided to Directors, officers and senior management of the Group. The Board emphasises that only the authorised representatives registered in the Stock Exchange are authorised to speak on behalf of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS *(Continued)*

External Auditors' Remuneration

During the Year, the Company engaged Deloitte & Touche LLP as the external auditors. Their fees in respect of audit services and non-audit services provided for the year ended 31 December 2018 amounted to S$135,000 and S$650,000 respectively. The amount of fee incurred for the non-audit services mainly included S$345,000 of the service fee paid to Deloitte & Touche LLP and S$305,000 paid to its member firms as the reporting accountants in relation to the Listing.

The audit committee has expressed its views to the Board that the level of fees paid/payable to the Company to the Company's external auditors for annual audit services was reasonable. There has been no major disagreement between the auditors and the management of the Company during the Year.

COMPANY SECRETARY

The Company appointed Mr. Ng Chit Sing ("Mr. Ng"), an external service provider, as its company secretary. Mr. Ho Lien Hwai (the Chairman) and Teng Ley Peng (the Chief Administrative Officer), are the primary contact persons to Mr. Ng at the Company in respect of any compliance and company secretarial matters of the Company.

The biographical details of Mr. Ng are set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report. During the Year, Mr. Ng, undertook over 15 hours' professional training to update his skill and knowledge in compliance with the CG Code.

CHANGES IN CONSTITUTIONAL DOCUMENTS

Pursuant to the GEM Listing Rules, the Company has published on the websites of the Company and the Stock Exchange its Memorandum and Articles of Association. During the Year, the shareholder has passed resolution on 4 October 2018 approving the adoption of amended and restated Memorandum and Articles of Association of the Company. Save as the aforesaid, there has been no changes in the constitutional documents of the Company.

The restated Memorandum and Articles of Association of the Company are available for viewing on the websites of the Company and the Stock Exchange.

NON-COMPETITION UNDERTAKING FROM CONTROLLING SHAREHOLDERS

The controlling shareholder (as defined in the GEM Listing Rules) of the Company gave a non-competition undertaking in favour of the Company and confirm that they and their close associates have not breached the terms of the undertaking contained in the Non-competition Deed during the Review Period.

The Board comprising all the independent non-executive Directors, based on the written confirmation provided by the controlling shareholders, is of the view that the controlling shareholders have been in compliance with the Deed of Non-competition in favour of the Company for the Review Period.

SHAREHOLDERS' RIGHTS

The Way by Which Shareholders Can Convene Extraordinary General Meeting ("EGM")/Put Forward Proposal

According to Article 58 of the articles of association of the Company, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Article 85 of the Articles of Association of the Company provides that no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Accordingly, if a member of the Company wishes to propose a person other than a Director for election as a Director at the Company's general meeting ("Proposal"), he/she should lodge a written notice setting out the Proposal and his/her contact details to the head office and principal place of business of the Company.

The relevant procedures are set out in the circular to the shareholders regarding the forthcoming annual general meeting of the Company which is sent together with this annual report and the Company's website at www.honindustries.com.sg.

SHAREHOLDERS' RIGHTS *(Continued)*

The Procedures for Sending Enquiries to the Board

Shareholders may send their enquiries and concerns in writing to the Board/company secretary by addressing them to the Company at our Headquarters in Singapore or principal place of business in Hong Kong or by email as specified in the Company's website.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company endeavours to maintain effective communications with the shareholders and potential investors of the Company.

Save as mentioned under the sub-heading "The Procedures for Sending Enquiries to the Board" above, in order to provide more relevant information to our shareholders, the Company has published all corporate information about the Group on its website at www.honindustries.com.sg. It is a channel of the Company to communicate with its shareholders and potential investors with our latest corporate development. All our corporate communications, such as statutory announcement, circular and financial reports are available on the website for easy access by the shareholders and potential investors. In addition, the Company meets its shareholders at the annual general meeting so as to promote the development of the Company through mutual and efficient communications.

The forthcoming annual general meeting of the Company is scheduled to be held on 9 May 2019. At the annual general meeting, the chairman of the Board as well as chairman of the nomination committee, remuneration committee and audit committee or, in their absence, other members of the respective committees shall attend to answer questions from shareholders at the annual general meeting. The representatives of the external auditors shall also present and available to answer questions at the meeting.

The notice of annual general meeting and the necessary information on issues to be considered in the annual general meeting will be set out in the circular to be despatched to the shareholders of the Company in due course.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS *(Continued)*

Policy on Payment of Dividends

The Company adopted a policy on payment of dividends (the "Dividend Policy") in compliance with E.1.5 of the CG Code with effect from 1 January 2019, which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions and so on. The Board has complete discretion on whether to pay a dividend, subject to Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors of and affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

Singapore, 21 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

Hon Corporation Limited (the "Company", together with its subsidiaries, "the Group" or "we") as a main contractor in building and infrastructure projects, as well as interior decoration projects in Singapore's public and private sectors, we believe sustainability is the key to achieve continuous success so we have integrated it into our business strategies.

This Environmental, Social and Governance Report (the "ESG Report") summarises the environmental, social and governance initiatives, plans and performances of the Group and demonstrates its commitment to sustainability development.

The ESG Governance Structure

During the year ended 31 December 2018 (the "Year"), the Group has set up an ESG working taskforce (the "Taskforce") composed of staff from relevant departments assisting in data collection and compilation of the ESG Report. The Taskforce would periodically report to the senior management, assist in assessing, identifying and managing risks of the Group on ESG aspects and whether its internal control system is appropriate and effective. The Taskforce reviews the ESG performance of the Group, including environmental, labour practices, and other ESG aspects. The senior management sets the tone at the top for its ESG strategies, and is responsible for ensuring effective risk management and internal controls.

SCOPE OF REPORTING

Unless specified otherwise, the ESG Report covers the Group's business activities in Singapore, which represent the Group's major sources of revenue. The ESG key performance indicator ("KPI") data is gathered and included subsidiaries under the Group's direct control. The KPIs are shown in the Report as well as supplemented by explanatory notes to establish benchmarks. The Group will extend the scope of disclosures when and where applicable.

REPORTING FRAMEWORK

The ESG Report has been prepared in compliance with all applicable provisions set out in the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") contained in Appendix 20 to the GEM Listing Rules.

For the Group's corporate governance practices, please refer to page 33 to page 49 for the section head "Corporate Governance Report" contained in this annual report.

REPORTING PERIOD

The ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 31 December 2018.

STAKEHOLDER ENGAGEMENT

We value our stakeholders and their feedback regarding our businesses and ESG aspects. In order to understand and address their key concerns, we have maintained close communication with our key stakeholders, including but not limited to shareholders and investors, customers and business partners, employees, suppliers and subcontractors, as well as media, non-governmental organisations ("NGOs") and the public. We take stakeholders' expectations into consideration in formulating our businesses and ESG strategies by utilising diversified engagement methods and communication channels, shown as below.

Stakeholders	Communication Channel
Shareholders and investors	• Annual General Meeting (AGM) and other shareholder meetings • Annual Reports, Interim Reports and Quarterly Reports • Announcements and Circulars • Company website
Customers and business partners	• Customer Satisfaction Survey • Progress Meetings
Employees	• Trainings, Seminars, and Briefing Sessions • Performance Reviews • Intranet
Suppliers and subcontractors	• Supplier Management Meetings and Events • Supplier Audit
Media, NGOs, and the public	• ESG Report

We aim to collaborate with our stakeholders to improve our ESG performance and create greater value for the wider community on a continuous basis.

MATERIALITY ASSESSMENT

The management and staff of the Group's respective major operations have participated in the preparation of the ESG Report to assist the Group in reviewing our operations and identifying relevant ESG issues and assess the importance of related matters to our businesses and stakeholders. Based on the assessed significant ESG issues, a data collection questionnaire was prepared to collect information from relevant departments and business units of the Group.

MATERIALITY ASSESSMENT *(Continued)*

The following table is a summary of the Group's material ESG issues included in the ESG Report:

The ESG Reporting Guide	Material ESG aspects of the Group	
A. Environment		
A1. Emissions	Waste Management	P.56
A2. Use of Resources	Energy Efficiency	P.58
	Water Consumption	P.59
A3. The Environment and Natural Resources	Noise Control	P.60
B. Social		
B1. Employment	Recruitment and Remuneration	P.61
	Working Hours and Rest Periods	P.61
B2. Health and Safety	Environmental, Health and Safety	P.62
	Safety Trainings and Inspections	P.62
B3. Development and Training	Training and Development	P.63
B4. Labour Standards	Prevention of Child and Forced Labour	P.64
B5. Supply Chain Management	Supply Chain Management	P.64
B6. Product Responsibility	Customer Services	P.66
B7. Anti-corruption	Anti-corruption	P.67
B8. Community Investment	Community Participation	P.69

During the year ended 31 December 2018, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

CONTACT US

We welcome stakeholders to provide their opinions and suggestions. You can provide valuable advices in respect of the ESG Report or our performances in sustainable development by email hr@honindustries.com.sg.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and Key Performance Indicators ("KPIs")

The Group primarily acts as a main contractor in building and infrastructure projects and interior decoration projects in the public and private sectors in Singapore. Business operations include, but not limited to, maintenance services, repairs, and renovations. We integrate environmental concerns into our decision making processes and consider potential positive and negative environmental impacts of our businesses.

To enhance our environmental governance practices and mitigate the environmental impact caused by our operations, we have implemented ISO14001:2015 Environmental Management System ("EMS"). In addition, we have adopted the Environmental, Health and Safety ("EHS") Policy in accordance with relevant Singapore standards related to safety and health management system and other standards, code of practice or guidance issued or approved by the Workplace Safety and Health Council. The EHS Policy is signed by the top management and made available on site for use. It is reviewed at intervals of at least once a year or when there are changes of operations that require other sources and personnel management, and after statutory audits.

We have established an Environmental, Health and Safety Committee ("EHS Committee") which is chaired by a Director and is composed of management representatives including quantity surveyor, project manager, safety engineer or supervisor and employee representative. The committee meets on a regular basis and is responsible for setting objectives and monitoring performance. They are the responsible team to control any failure to meet the Group's Environmental, Health and Safety Policy.

Also, we are committed to raising our employees' environmental awareness and complying with relevant environmental laws and regulations. Related in-house training is conducted to various stakeholders in raising their awareness on the ISO 14001 EMS, including but not limited to department heads, section supervisors, management staff, local and foreign workers, suppliers, and contractors.

We circulate memorandums to all staff on the identification and segregation of domestic wastes. Domestic wastes have been identified and segregated into three major types, namely, paper, plastic, and metal. Containers marked with "Paper", "Plastic" and "Metal" are being positioned at designated locations within the factory premises. Employees are advised to place the appropriate domestic wastes into the specified containers.

In the long run, we will continue to regularly enhance our environmental management strategies in monitoring and minimising the environmental impacts brought by our businesses.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and Key Performance Indicators ("KPIs") *(Continued)*

Same as disclosed in the prospectus, the Group did not have significant violation of relevant local environmental laws and regulations in relation to exhaust gas and GHG emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes during the Year, including but not limited to, "Environmental Protection and Management Act", "Environmental Public Health Act", and "Environmental Public Health (General Waste Collection) Regulations" that have a significant impact on us.

As a main contractor, the Group realises the potential environmental impacts from GHG emissions, domestic waste water and non-hazardous wastes. We focus on nurturing and strengthening our employees' awareness of environmental protection in their daily work processes, and actively implement the Group's environmental protection measures, with the aim to lower the GHG emissions and reduce non-hazardous wastes generation.

Air Emissions

Due to our business nature, the Group considers the relevant air emission generated is insignificant. However, we still pay attention to the relevant air emission generated at construction sites. We strive to mitigate the exhaust gas and dusts generated from our production process as much as possible.

Exhaust Gas Emission

Our major sources of exhaust gas emission are combustion of diesel and petrol from vehicles and construction machineries. We have set up a monitoring system for diesel consumption on site to track the amount of diesel consumed. Causes of unexpected high amount of diesel consumption will be examined. Other measures to mitigate exhaust gas emission for vehicles and construction machineries are mentioned in the following section on "GHG Emissions".

Dust

We have a section on "Site Dust Control" in our EHS Management Programme. To cater dust problems at sites, we have implemented the followings:

- Concreted or paved areas for site access to reduce generation of airborne dust;
- Diverted exhausts of generators into drums of water to mitigate release of harmful contaminants into the atmosphere; and
- Covered and secured all loads on vehicles before leaving the site.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and Key Performance Indicators ("KPIs") *(Continued)*

GHG Emissions

The principal GHG emissions of the Group are generated from the petrol and diesel consumption of vehicles (Scope 1) and purchased electricity (Scope 2).

We have adopted the following measures to mitigate the direct GHG emissions from petrol and diesel consumption in our operations:

- Switched off engine whenever the vehicle is idled;
- Examined and obtained certification for the vehicles under section 90 of the "Road Traffic Act" on the prescribed statutory requirements; and
- Provided maintenance service to the vehicles on a regular basis to ensure engine performance to ensure efficient use of fuel.

Consumption of electricity is accounted as the most significant source of indirect GHG emission. The Group has implemented measures as stated in "Energy Efficiency" of Aspect A2 below in order to reduce energy consumption, and thereby minimising carbon footprint.

Through these GHG emissions mitigating measures, the employees' awareness on GHG emissions mitigation has been enhanced.

The summary of GHG emissions performances:

Indicator[1]	Total emissions (calculated in tCO_2e)	Intensity (tCO_2e/employee)[2]
Direct GHG emissions (Scope 1) — Diesel and petrol consumption	2,496.38	10.58
Indirect GHG emissions (Scope 2) — Electricity consumption	28.30	0.12
Total GHG emissions (Scope 1 and Scope 2)	2,524.68	10.70

Notes:

1. GHG emission data is presented in terms of carbon dioxide equivalent and are based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, the latest released Singapore's Grid Emission Factor, "How to prepare an ESG Report? — Appendix II: Reporting Guidance on Environmental KPIs" issued by the HKEX, "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5).

2. As at 31 December 2018, the Group had 236 full-time employees in total. The data is also used for calculating other intensity data.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and Key Performance Indicators ("KPIs") *(Continued)*

Sewage Discharge

We do not consume significant volume of water through our business activities, and therefore our business activities did not generate material portion of discharge into water. We have procedures for water discharge at sites to prevent water pollution. Realising the potential of underground water pollution from leaching, drip trays are placed under generator sets to prevent any seepage, dripping or spillage of diesel to the ground or drain.

Waste Management

Hazardous Waste Handling Method

Despite the Group did not generate material hazardous wastes during the Year, we have established guidelines in governing the management and disposal of hazardous wastes. In case there is any hazardous wastes produced, chemical wastes are temporarily stored in dedicated location with appropriate hazard labels. We must engage a qualified chemical waste collector to handle such waste, which is complied with the relevant environmental regulations and rules.

Non-hazardous Waste Handling Method

The Group's wastes mainly come from construction sites and office, including non-hazardous wastes such as construction waste, wood and paper. With the aim of minimising the environmental impacts from non-hazardous wastes generated from our business operations, the Group has implemented measures in waste management and launched different reduction initiatives.

For wastes generated at sites, we implement separate refuse management systems for organic and construction wastes at our Project Residential work site. Industrial wastes from our Project Residential work site are removed to a public disposal facility for disposal.

To promote waste separation at source, disposal bins for different types of waste streams are made readily available. We set up procedure for reduction of construction waste and office waste by implementing arrangement of recycling of office waste management.

We have implemented the following procedures to encourage employees to share responsibilities in waste management and minimise waste generations:

- Used double sided printing or photocopying wherever possible;
- Utilised electronic media for communication;
- Recycled one-sided printed paper; and
- Avoided single-use disposable items.

A. ENVIRONMENTAL *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and Key Performance Indicators ("KPIs") *(Continued)*

Waste Management (Continued)

We also inculcate good practice among staff, including sub-contractors, to segregation of cement bags and paper packaging for disposal into recycling bin(s) to designated refuse collecting point(s).

Our staff's awareness on waste management have been raised through the above measures.

The summary of major non-hazardous wastes discharge performance:

Category of waste	Total discharge (tonnes)	Intensity (tonnes/employee)
General wastes	603.78	2.56
Paper[3]	2.00	0.01

Notes:

3. The amount includes A3 and A4 paper, which is 386,000 pages in total.

A2. Use of Resources

General Disclosure and KPIs

The Group strives to optimise resource usage in our business operations and take initiatives to introduce measures on promoting resource efficiency and adopting eco-friendly approaches in our operations. During our operations, fuel, electricity and water are frequently consumed, and the Group has established relevant policies and procedures in governing the efficient use of resources, in reference to the objective of achieving higher energy efficiency and reducing the unnecessary use of materials. We have also encouraged our subcontractors to adopt similar principles.

We have included a "Green and Gracious Policy Statement" in our Green and Gracious Best Practices Operational Manual, listing out ways that we are committed in protecting the Earth, taking care of the environment and being gracious to our employees and neighbours. Commitments include but not limited to preventing pollution, promoting resource efficiency, reducing waste generation, and training personnel on green and gracious practices. We strive to improve our green and gracious performances on all our project sites so as to create a gracious and green workplace for our staff and workers as well as to maintain a conductive, clean and safe living environment for our neighbours.

A. ENVIRONMENTAL *(Continued)*

A2. Use of Resources *(Continued)*

General Disclosure and KPIs *(Continued)*

Energy Efficiency

The Group aims to minimise environmental impacts in our operations by identifying and adopting appropriate measures in our operations. Related policies and initiatives on energy conservation have been developed to show our concern on energy efficiency. All employees are notified to implement such policies and measures on resource utilisation. Regular review is conducted on our energy objectives and targets to seek continuous improvement in the Group's energy performance.

Monthly monitoring of the usage of electricity, water and other materials is implemented. We have set up a monitoring system for electricity consumption on site to ensure consumption of less than 8 kWh/m^3 GFA or less than 5,328 kWh/$mil work done per project. Unexpected high electricity consumption will be investigated to find out the root cause and preventive measures will be taken.

During the Year, the Group has performed the following measures relating to promote energy efficiency:

- Switched off unnecessary lightings and electrical appliances when not in use; and

- Set up procedures for on-site energy consumption monitoring system.

As a result, the employees' awareness of energy conservation has been increased through these energy-saving measures.

During the Year, the energy consumption of the Group and its intensity were as follows:

Type of energy	Energy consumption (kWh)	Intensity (kWh/employee)
Diesel[4]	10,075,291.30	42,691.91
Petrol[5]	39,409.38	166.99
Electricity	67,518.64	286.10

Notes:

4. Conversion is in reference to the conversion provided on *U.S. Energy Information Administration Energy Conversion Calculators*, actual diesel consumption was 947,235.11 litres.

5. Conversion is in reference to the conversion provided on *U.S. Energy Information Administration Energy Conversion Calculators*, actual petrol consumption was 4,225.82 litres.

A. ENVIRONMENTAL *(Continued)*

A2. Use of Resources *(Continued)*

General Disclosure and KPIs *(Continued)*

Water Consumption

Water consumption of the Group is mainly for operations at construction sites, cleaning and sanitation. We have set up procedure for water conservation measures. Also, we have a monitoring system for water consumption on site ensuring consumption of less than 800 L/m^3 GFA or less than 533 m^3/$mil work done per project.

We encourage all employees to develop the habit of water conservation. We have been strengthening our water-saving promotion, posting water saving reminders, and guiding employees to use water reasonably. The following are some measures we have implemented to increase water efficiency:

- Utilised recycled water for vehicle washing, cleaning of drains and dirty boot; and
- Used water treatment and recycling plant to conserve water usage on site or discharge of waste water.

Due to our business nature, we do not have issues in sourcing water that is fit for purpose.

During the Year, the water consumption of the Group and its intensity were as follows:

Water Consumption (m^3)	Intensity (m^3/employee)
196.40	0.83

Use of Packaging Material

Due to our business nature, the Group do not consume significant amounts of package materials for product packaging as it has no industrial production or any factory facilities.

A3. The Environment and Natural Resources

General Disclosure and KPIs

Realising the core businesses of the Group have potential impacts on the environment and natural resources, as an ongoing commitment to corporate social responsibility, we strive to minimise negative environmental impacts of our business operations. Due to our business nature, we recognise the potential negative environmental impacts like noise pollution. To mitigate the disturbance to the community and environment, we included a section on "Site Noise Control" in our EHS Management Programme. We are also devoted to achieve sustainable development for generating long-term values to the community and our stakeholders.

A. ENVIRONMENTAL *(Continued)*

A3. The Environment and Natural Resources *(Continued)*

General Disclosure and KPIs *(Continued)*

To mitigate our potential environmental impacts, we spend efforts in reducing consumption of natural resources and promoting effective environmental management. We regularly assess the environmental risks of our businesses, adopt preventive measures to reduce potential risks and ensure compliance with relevant laws and regulations.

Environmentally Friendly Construction Methods

We strive for environmental protection and gracious practices during construction phase of projects. The concept of sustainability is embedded in our procurement and working processes. We recommend and use environmentally friendly or green label products on site. To raise the awareness of staff at the sites, environmental posters are displayed at the EHS notice board.

Realising the potential environmental and health problems may arise from our construction sites due to pests, we adopt proactive vector control measures at site by deployment of in-house team, carrying out regular oiling besides the engagement of Pest Control service.

Our efforts in building a safe, high quality, sustainable and friendly built environment is recognised by the Building and Construction Authority ("BCA"), and we obtained the BCA Green and Gracious Builder Award in 2018.

Noise Control

Realising the potential noise pollution from our construction sites, we have a section on "Site Noise Control" in our EHS Management Programme. We have implemented the following measures to control noise emission at sites:

- Installed noise barriers at areas of concern to reduce noise transmission;
- Provided enhanced hoardings (4 to 6 metres in height) around the site to mitigate noise during construction; and
- Installed noise monitoring metre(s) both on and off site to monitor.

B. SOCIAL

B1. Employment

General Disclosure

Human resources are the foundation for the Group's continuous development. Hence, we have established relevant employment policies to adopt people-oriented management strategy and realising the full potential of employees. Relevant employment policies are formally documented as Employee Handbook, covering recruitment and remuneration, compensations, working hours and rest periods, diversity and equal opportunities, etc. We review these policies and our employment practices periodically to ensure the continuous improvements of our employment standards.

During the Year, the Group was not aware of any material non-compliance with employment-related laws and regulations including but not limited to the "Employment Act", that would have a significant impact on the Group.

Recruitment and Remuneration

We adopt robust, transparent and fair recruitment processes based on merit selection against the job criteria applied. Recruitment of individuals are based on their suitability for the position and potential to fulfil the Group's current and future needs. We ensure our employees and applicants are treated and evaluated in a fair way.

Our basis for remuneration is job-related skills, qualifications and performances. The Group will conduct annual performance review and annual salary review in order to determine salary adjustments and promotion appraisals. We compensate employees through the provision of Workmen's Compensation Insurance, which covers employees who sustain personal injury by accident or disease arising out of the course during employment. Remuneration packages include variable bonus, annual leave, medical reimbursement, outpatient medical consultation, and discretionary bonuses, etc.

Working Hours and Rest Periods

The Group has formulated policies in determining the working hours and rest periods for employees in accordance with local employment laws. Apart from the basic leaves such as annual leaves, employees are also entitled to additional leaves, such as maternity leave, paternity leave, childcare leave, marriage leave, and compassionate leave as long as such leave periods are granted in accordance with the relevant employment laws, and leaves are in accordance with the provision of the "Employment Act".

Diversity, Equal Opportunities and Anti-discrimination

A diverse and skilled workforce is crucial for our business. The Group is committed to creating and maintaining an inclusive and collaborative workplace culture. We are dedicated to providing equal opportunities in all aspects of employment and maintaining workplace that are free from discrimination, physical or verbal harassment against any individual on the basis of race, religion, colour, gender, physical or mental disability, age, place of origin, marital status, and sexual orientation. We also strive to ensure that complaints, grievances and concerns, including whistle-blowing, are dealt with promptly and confidentially. We have zero tolerance on sexual harassment or abuse in the workplace in any form.

B. SOCIAL *(Continued)*

B2. Health and Safety

General Disclosure

The Group is committed to providing and maintaining a safe and healthy working environment for the benefit of our employees, subcontractors, and suppliers. We have established a Workplace Safety and Health Management System Operation Procedure which sets out clear terms for project management approaches and commitments to health and safety. We review the policy annually, or when incidents arising that determine a need to review, to ensure it remains relevant and appropriate to the Group.

The Group is also certified with bizSAFE Star Level, which is accredited by the Workplace Safety and Health Council in Singapore. We will continue to invest sufficient resources and devote efforts to maintain and enhance safety management so as to reduce the risks involved in health and safety.

During the Year, the Group was not aware of any material non-compliance with health and safety-related laws and regulations including but not limited to "Workplace Safety and Health Act", that would have a significant impact on the Group.

Environmental, Health and Safety

The Group has implemented the EHS Policy, which was written in accordance to relevant Singapore standards relating to safety and health management system and other standards. The policy includes main-contractor and sub-contractor responsibilities, and the management's commitments to safety and health. The policy also states the requirement of sub-contractor to provide sufficient and appropriate resources at the site. The EHS Policy is reviewed at intervals of at least once a year, or when there is change of operations that requires other sources and personnel management, and after statutory audits.

Workplace Safety and Health ("WSH") Management Programmes

The Group has established various occupational health programmes which aim to protect workers from health hazards relevant to the construction industry such as noise, dust, toxic gasses and vapours. Such programmes include Hearing Conservation Programme, Respiratory Protection Programme, Hand Protection Programme, Personal Eye Protection Programme, etc.

Safety Trainings and Inspections

We conduct regular safety inspections to ensure our operations are conducted in a manner so as to reduce the risks to employees and workers. Safety inspections are conducted by different levels of management, and follow-up actions will be conducted immediately when deemed necessary.

We emphasise to our employees that strict compliance with safety requirements is vital to ensure that there are no accidents to themselves or others that work on our projects. We also require our subcontractors to abide by all applicable laws, regulations and safety requirements imposed by the relevant government authorities.

B. SOCIAL *(Continued)*

B2. Health and Safety *(Continued)*

General Disclosure *(Continued)*

Safety Trainings and Inspections (Continued)

Mass Tool Box Meetings and/or Weekly Tool Box Meetings are regularly conducted to train all workers on the relevant health hazards, safe work practice and proper use of personal protective equipment. The worksite management also implement Safety and Health Management System ("SHMS") promotional programmes to educate the workers on health hazards and the corresponding control measures.

We believe that our employees are important assets to the Group. All employees at the sites should attend WSH Orientation or induction courses organised by the Group on occupational safety and environmental control. The WSH Orientation or Induction Courses syllabus shall be reviewed once a year and if necessary revised based on workplace, industry or regulatory changes. We also conduct related in-house training for various stakeholders to raise their awareness on the OHSAS 18001, including but not limited to department heads, section supervisors, management staff, local and foreign workers, suppliers and contractors.

Employees are reminded to report any hazards identified to supervisor immediately, no matter it is minor or major accidents occurring on site. WSH Officer will assist the supervisor to rectify hazards identified to prevent accident occurrence. Also, near misses or incidents without personal injury must be reported to supervisor immediately. WSH Officer are required to assist the supervisor in incident or accident investigation process to identify the hazards and recommend remedial measures to prevent recurrence.

B3. Development and Training

General Disclosure

The Group regards our staff as the most important asset and resource. We recognise the valuable contribution our talents make to the continued success of the Group. We are committed to inspiring our human capital towards delivering excellence. This is achieved through development of training strategies that focus on creating values and serving the needs of our customers, our talents and the society.

Training and Development

The Group understands that training and development is indispensable for our staff to keep abreast with the latest trend in the industry. Nurturing talents and polishing the skills of our human capital is critical in leading us to excellence.

The Group provides its staff with courses, workshops, conferences, and seminars that are related to the works undertaken by the Company. Training contents are regularly updated to ensure training programmes will enhance the skills, knowledge, and competency of staff to perform duties and tasks.

The Group also encourages employees to attend training courses through the introduction of Training Bond. Bond periods are different subjected to the amount of bond schedule. An employee whose application has been approved by the Company will be asked to sign a bond in accordance with the bond schedule.

B. SOCIAL *(Continued)*

B4. Labour Standards

General Disclosure

Prevention of Child Labour and Forced Labour

Child and forced labour are strictly prohibited during the recruitment process as defined by laws and regulations. The Group strictly complies with local laws and does not provide employment to children before they reach the legal age to work as defined by the International Labour Organisation ("ILO") Convention and Ministry of Manpower ("MOM") in Singapore. No employee will be compelled to work against his or her will through force or intimidation of any form or subjected to corporal punishment or coercion of any type related to work.

Personal data will be collected during the recruitment process to assist in the selection of suitable candidates. The Human Resource Department will also ensure the compliance at all operations and facilities by checking original identification cards upon recruitment. If violation is involved, it will be dealt with in the light of circumstances.

During the Year, the Group was not aware of any material non-compliance with child and forced labour-related laws and regulations, including but not limited to the "Employment Act" that would have a significant impact on the Group.

B5. Supply Chain Management

General Disclosure

The Group highly values our relationship with suppliers and subcontractors, and regards them as important business partners. All suppliers and subcontractors are evaluated, and subjected to regular monitoring and assessment. The Group has formulated related policies and procedures to manage its suppliers, and the policies and procedures are reviewed annually.

Supply Chain Management

A Tender Committee is established and comprised of Chief Procurement Officer, Contract Manager, Assistant Contract Manager, and Project Quantity Surveyor. The Committee is responsible for all decisions made during the tendering process.

Vendor Management Practices

The Group has established a vendor performance assessment and monitoring system to provide the Purchasing Department with a structured and systematic way to access suppliers and sub-contractors. Supplier and sub-contractor evaluation is based on product quality, ability in meeting contractual requirements, previous project references and delivery capability. The system also helps to ensure the delivery of maximum value and service quality for the Group's purchase with the input from users and purchasing staff.

B. SOCIAL *(Continued)*

B5. Supply Chain Management *(Continued)*

General Disclosure *(Continued)*

Vendor Management Practices (Continued)

Suppliers and sub-contractors assessment will be conducted periodically, and the results of the evaluations, both positive and those needing improvement will be promptly shared with the vendors. Suppliers who consistently fail to meet the Group's requirement may be subjected to suspension for future supply.

Environmental and Social Responsibilities of Suppliers

Supplier's environmental and social risk management is one of our considerations in the Supplier Initial Assessment Report. We assess our suppliers' certified management systems such as ISO 9000, ISO/TS 16949, ISO 14000, OHSAS 18000, ISO 22000, ISO/IEC 17025 and etc. in the evaluation processes. Other factors such as quality, environmental, occupational health and safety problems are also included in our assessment processes.

We included terms of site safety and environmental obligations in the Letter of Award to sub-contractors. Compound fine plus administration fees will be imposed to all sub-contractor and suppliers for any infringement of House Rules and Safety Violation.

Fair and Open Tendering

The Group has formulated a tendering manual to ensure vendors in the market could engage in fair competition during the tendering processes. Tender Committees will be set up to make all decisions during the tendering process. The Group prohibits the differentiation or discrimination on certain vendors; and it strictly monitors and prevents all kinds of business bribery. Employees or personnel having any interest relationship with the vendors should not be involved in the related business activity.

B6. Product Responsibility

General Disclosure

Achieving and maintaining high quality standard for projects are important for sustainable growth of the Group. We believe completing works that meet or exceed our customer's requirement is critical not only for building safety, but also expanding job references and future business opportunities. In order to ensure the delivery of high quality services and sustainable projects to our clients, projects are monitored and inspected regularly by different levels of management.

During the Year, we were not aware of any incidents of non-compliance with laws and regulations, including but not limited to the "Personal Data Protection Act", that have a significant impact on the Group, concerning advertising, labelling and privacy matters relating to products and services provided and methods of redress.

B. SOCIAL *(Continued)*

B6. Product Responsibility *(Continued)*

General Disclosure *(Continued)*

Quality Control of Projects

In order to ensure service quality is being maintained, the Group have implemented the Quality Policy, complied with international standards, and is certified with ISO 9001 Quality Management. We are dedicated to deliver quality products and services which satisfy the needs and requirements of our customers and interested parties by continually improving the effectiveness of the Quality Management System.

To ensure our services meet the expectations of the clients, we conduct site visits and generate a Site Visit Report. We look into environmental aspects like type of soil, disposal of water and soil; services including water, electricity, telecommunication, main drainage and sewerage; and other aspects like means of access, site security, hoarding requirement, parking or loading and unloading, type of adjacent building, overhead obstruction, and traffic restriction.

Responsibilities of Project Manager and Project Quantity Surveyor or Project Manager are clearly specified in the policy on Quality Procedure — Customer Communication. Project Manager are responsible for attending to customer's request on site, determine and quantify customer's requirements, arranging with Project Quantity Surveyor and/or Chief Operations Officer to resolve any operational issues, and liaising with client to inspect and/or verify the finished product prior to delivery. While for Project Quantity Surveyor or Project Manager, they are responsible to contact the client for further information and/or clarification if needed.

Customer Privacy Protection

The Group respects the values and rights of customers' information assets, and strictly complies with the customers' information security management systems and standards. In order to provide a high quality services, we are determined to strengthen the protection of customers' privacy. Our employees are professionally trained to maintain the confidentiality of our customers' information. The Group adheres to the "Personal Data Protection Act" of Singapore. We have also implemented firewall, anti-virus, and anti-spam solutions for our IT systems to prevent leakage of confidential information, which are upgraded constantly.

Customer Services

The Group formulated policies and procedures on Customer Focus. Industrial information, customer feedback, product information request, customer inquires, customer complaints and competitors action are gathered for determination and review of customer's requirements. These information will then be used for service or product generation, review will be carried out to ensure customer satisfaction. If customers are not satisfied with the service or product, further studies and review will be conducted.

We have also established a set of procedures in handling customers' feedbacks or complaints in a professional manner. When receiving product or service-related enquiries or complaints, reviews will be conducted immediately. After complaints are settled, customers' satisfaction will be evaluated.

B. SOCIAL *(Continued)*

B6. Product Responsibility *(Continued)*

General Disclosure *(Continued)*

Customer Services (Continued)

We have a Customer Visit Report for customers to provide feedback for our services. Customers evaluate our performances on quality of material and equipment, response to instructions, progress of work delivery, quality of workmanship, site planning and control, public inconvenience, and performance during defect liability period. Other recommendation and comments from the clients are also recorded.

Protection of Intellectual Property ("IP") Rights

The Group registered the logo of the Group as the trademark in both Hong Kong and Singapore. For any infringement of our IP, we will urge infringers to cease such action. The Human Resources Department of the Group will take further action if infringement continues.

Advertising and Labelling

As the Group's operational process does not involve advertising and labelling practices, the information relating to advertising and labelling is considered as non-material to the Group.

B7. Anti-corruption

General Disclosure

The Group has zero toleration on any corruptions, frauds and all other behaviours violating work ethics. We value and uphold integrity, honesty and fairness in the way we conduct businesses. The Group has formulated related policies on the control and prevention of bribery, extortion, fraud and money laundering between shareholders and related parties in each business operation and trade activity.

During the Year, the Group did not notify any material non-compliance with the relevant laws and regulations of bribery, extortion, fraud and money laundering, including but not limited to the "Prevention of Corruption Act".

Anti-corruption

The Group has zero toleration on any corruptions, frauds and all other behaviours violating work ethics. We value and uphold integrity, honesty and fairness in the way we conduct businesses. As spell out in the "Potential Conflict of Interest and Code of Ethics" of our Employee Handbook, employees should declare potential conflict of interest to their Supervisor or Human Resources Department and abide by the Code of Ethics for our employees. All employees are required to sign the declaration of conflict form and Code of Ethics upon joining the Group.

Basic standards of expected conducts for all employees are clearly set out in the Anti-Fraud, Anti-Money Laundering Policy. The definition of "Fraud", "Money laundering", "Terrorism Financing" and "Employees" are clearly stated in the above policy. Such policy will be reviewed at least bi-annually and revised as needed. The Director is responsible for the administration, revision, interpretation and application of this policy.

B. SOCIAL *(Continued)*

B7. Anti-corruption *(Continued)*

General Disclosure *(Continued)*

Anti-fraud

All employees should be alert for occurrences of fraud, and be aware that unusual transactions or behaviours could be indications of fraud. Employees will be subjected to disciplinary actions if they are found being engaged in fraudulent activities. Disciplinary actions include termination of an individual, or prosecution to the appropriate law enforcement and/or regulatory agencies for independent investigation, depending on the situation.

Anti-money Laundering

An assessment of the risk of money laundering in the Group's operations will be conducted by the Head of Finance Office annually. Due diligence will be conducted by the responsible departments before the acceptance of business counterparties. For any indicators of suspicious activities, the Head of Finance Office will report to the Audit Committee immediately.

Whistle-blowing Mechanism

In order to further maintain and achieve the highest standards of openness, probity and accountability, the Group has formulated a Reporting Procedure. While management is responsible for detecting irregularities, employees are also encouraged to report fraudulent activity immediately to the Head of Department, or where that is not possible, to the Director when they discover or suspect such activity.

An Investigative Procedure is also implemented for the coordination for investigations. The Director will be in charge of coordinating all investigations, and he or she will seek to ensure the investigators have free and unrestricted access to all company records and premises, whether owned or rented. Investigators will have the authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who might use or have custody of any such items or facilities when it is within the scope of their investigation.

We will endeavour to protect an individual's identity when he or she raises an issue and does not want their identity to be disclosed. It should be understood, however, that an investigation of any malpractice may need to identify the source of the information and a statement by the individual may be required as part of the evidence. All details of the investigation must be kept confidential throughout so as to avoid any mistaken accusations and to prevent alerting the suspected individual. All details and results of the investigation will only be shared with individuals on a need-to-know basis.

B. SOCIAL *(Continued)*

B8. Community Investment

General Disclosure

The Group believes that returning to the society through social participation and contribution is a form of showing corporate citizenship. We also see the potential to nurture corporate culture and inspire our employees towards social concerns in daily work life. We would embrace the human capital into the social management strategies to sustain our corporate social responsibility as a part of the strategic development of the Group.

Community Participation

We participate in various community activities to help the needy in the society. For example, donations, sponsorships, etc. During the Year, the Group has donated a total of S$1,000 to Gao Ling Gong Temple Charity Lunch, which was held on 4 October 2018. Beneficiaries included but not limited to residents from Ang Mo Kio rental flats and Awwa Old Folks Homes.

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1 (“comply or explain”)	The types of emissions and respective emissions data.	Emissions
KPI A1.2 (“comply or explain”)	GHG emissions in total (in tonnes) and intensity.	Emissions — GHG Emissions
KPI A1.3 (“comply or explain”)	Total hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management Not applicable — Explained
KPI A1.4 (“comply or explain”)	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management
KPI A1.5 (“comply or explain”)	Description of reduction initiatives and results achieved.	Emissions — Air Emissions, GHG Emissions
KPI A1.6 (“comply or explain”)	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions — Waste Management

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED *(Continued)*

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1 ("comply or explain")	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources — Energy Efficiency
KPI A2.2 ("comply or explain")	Water consumption in total and intensity.	Use of Resources — Water Consumption
KPI A2.3 ("comply or explain")	Description of energy use efficiency initiatives and results achieved.	Use of Resources — Energy Efficiency
KPI A2.4 ("comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources — Water Consumption
KPI A2.5 ("comply or explain")	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources — Use of Packaging Material Not applicable — Explained
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1 ("comply or explain")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources — Environmentally Friendly Construction Methods, Noise Control
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED *(Continued)*

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED *(Continued)*

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hon Corporation Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Hon Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 79 to 163, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Contract Revenue Recognition (Note 6) and Accounting for Construction Contract (Note 21) The Group is involved in construction projects for which it applies the input method to measure the Group's progress towards complete satisfaction of a performance obligation and recognises revenue over time in accordance with IFRS 15 Revenue from contracts with customers. The revenue and profit recognised in a year on these projects is dependent, amongst others, on the assessment of the Group's efforts or inputs to the construction projects (i.e. contract cost incurred for work performed) relative to the total expected inputs to the construction projects (i.e. estimated total budgeted contract cost committed for the projects). The uncertainty and subjectivity involved in determining the costs to complete and foreseeable losses may have a significant impact on the revenue and profit of the Group. The Group's revenue recognition policy and key source of estimation uncertainty are set out in Notes 4 and 5 to the consolidated financial statements.	We have performed the following procedures: • Obtained an understanding of the projects, evaluated the design and implementation of relevant controls and tested the operating effectiveness of the controls relating to revenue recognition and partially completed projects. • assessed the Group's revenue recognition practice to determine that they are in compliance with IFRS 15 *Revenue from contracts with customers*, including the assessment of the Group's efforts or inputs to the construction projects (i.e. contract cost incurred for work performed) relative to the total expected inputs to the construction projects (i.e. estimated total budgeted contract cost committed for the projects). • For selected projects, our audit procedures included the following: i. agreed projects contract sum to signed contracts and variation orders; ii. obtained construction contracts from management and reviewed for any specific or special performance obligations and conditions during the financial period; iii. assessed the reasonableness of cost incurred against our understanding of the projects; iv. vouched the actual cost incurred during the year to details of supplier invoices and subcontractors to check the validity and accuracy of the costs; v. performed cut-off testing to verify contract costs were taken up in the appropriate financial year; vi. assessed and vouched to the estimated cost to complete by substantiating costs that have been committed to quotations and contracts entered;

Key audit matter	How the matter was addressed in the audit
	vii. performed retrospective review by comparing the total actual contract costs incurred at completion against the total budgeted contract costs to assess the reasonableness of the estimates used by the management; viii. for projects in progress, we further re-computed the percentage of the progress of the contract based on input method to test the accuracy of the percentage of the progress to determine the revenue; ix. for projects completed during the year, we obtained the certificate of substantial completion and verified that the remaining revenue has been captured; x. compared total contract revenue to actual cost incurred plus estimated cost to complete, and assessed for foreseeable losses; xi. examined the project documentation (including contracts effective during the financial period, terms and conditions) and discussed with management on the progress of significant projects to determine if there are any changes such as delays, penalties, overruns which may result in liquidated damages. • assessed the appropriateness and adequacy of the disclosures made in the consolidated financial statements. Based on the audit procedures performed above, we found that the management's judgement in relation to the estimation of construction contracts to be reasonable.

INDEPENDENT AUDITOR'S REPORT

Information other than the Financial Statements and Auditor's Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Directors and those charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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.

- 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors.

- Conclude on the appropriateness of the directors'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 consolidated 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.

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

- 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 those charged with governances 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 those charged with governances 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.

INDEPENDENT AUDITOR'S REPORT

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matter. 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.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Ronny Chandra.

Deloitte & Touche LLP
Public Accountants and
Chartered Accountants
Singapore

21 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	Notes	Year ended 31 December 2018 S$'000	2017 S$'000
Continuing operations			
Revenue	6	**94,410**	100,841
Cost of services		**(83,753)**	(89,844)
Gross profit		**10,657**	10,997
Other income	7	**1,800**	1,053
Other gains or losses	8	**(158)**	(116)
Administrative expenses		**(9,272)**	(5,027)
Finance costs	9	**(616)**	(522)
Profit before tax		**2,411**	6,385
Income tax expense	10	**(1,226)**	(1,197)
Profit for the year from continuing operations	11	**1,185**	5,188
Discontinued operation			
Loss for the year from discontinued operation	12	**–**	(395)
Profit for the year		**1,185**	4,793
Other comprehensive income:			
Item that will not be reclassified to profit or loss			
Gain on revaluation of properties		**370**	747
Total comprehensive income for the year		**1,555**	5,540
Profit (loss) for the year attributable to owners of the Company:			
— from continuing operations		**1,185**	5,188
— from discontinued operation		**–**	(144)
		1,185	5,044
Loss for the year attributable to non-controlling interests of a subsidiary from discontinued operation		**–**	(251)
		1,185	4,793
Total comprehensive income (expense) attributable to:			
Owners of the Company		**1,555**	5,758
Non-controlling interests of a subsidiary		**–**	(218)
		1,555	5,540

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	Notes	Year ended 31 December 2018 S$'000	2017 S$'000
Earnings per share (in SGD cents)	15		
Basic and diluted			
From continuing and discontinued operations		**0.30**	1.40
From continuing operations		**0.30**	1.44

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 S$'000	2017 S$'000
Non-current assets			
Property, plant and equipment	16	**15,165**	14,725
Investment properties	17	**–**	–
Payments for life insurance policy	18	**–**	328
Financial asset at fair value through profit or loss	18	**328**	–
		15,493	15,053
Current assets			
Trade receivables	19	**10,635**	12,020
Deposits, prepayments and other receivables	20	**3,231**	8,274
Contract assets	21	**42,154**	25,588
Amounts due from shareholders	22	**–**	243
Pledged bank deposits	23	**801**	704
Bank balances and cash	23	**5,765**	2,762
		62,586	49,591
Asset classified as held-for-sale	24	**–**	925
		62,586	50,516
Current liabilities			
Trade and other payables	25	**35,953**	29,897
Bills payables	26	**12,781**	14,395
Contract liabilities	21	**–**	782
Obligation under finance leases	27	**370**	648
Borrowings	28	**1,092**	1,723
Income tax payable		**1,199**	10
		51,395	47,455
Liabilities associated with assets classified as held-for-sale	24	**–**	674
		51,395	48,129
Net current assets		**11,191**	2,387
Total assets less current liabilities		**26,684**	17,440

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	**2018 S$'000**	2017 S$'000
Non-current liabilities			
Obligations under finance leases	27	**374**	836
Borrowings	28	**5,067**	5,473
Deferred tax liabilities	29	**200**	211
		5,641	6,520
Net assets		**21,043**	10,920
Capital and reserves			
Share capital	30	**846**	6,500
Share premium	31	**7,722**	–
Merger reserve	32	**6,500**	–
Revaluation reserve	33	**3,042**	2,672
Retained earnings		**2,933**	1,748
Equity attributable to owners of the Company		**21,043**	10,920

The consolidated financial statements on pages 79 to 163 were approved and authorised for issue by the Board of Directors on 21 March 2019 and are signed on its behalf by:

Ho Lien Hwai
Chairman and Executive Director

Lim Shi Min
Executive Director

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

	Attributable to owners of the Company							
	Share capital S$'000	Share premium S$'000	Merger reserve S$'000	Revaluation reserve S$'000	(Accumulated losses)/ retained earnings S$'000	Sub-total S$'000	Non-controlling interests S$'000	Total S$'000
Balance at 1 January 2017	6,500	–	–	2,256	(95)	8,661	77	8,738
Profit (loss) for the year	–	–	–	–	5,044	5,044	(251)	4,793
Gain on revaluation of properties	–	–	–	714	–	714	33	747
Total comprehensive income (expense) for the year	–	–	–	714	5,044	5,758	(218)	5,540
Transfer to accumulated profits	–	–	–	(298)	298	–	–	–
Disposal of a subsidiary (Note 40)	–	–	–	–	–	–	141	141
Dividends recognised as distribution (Note 14)	–	–	–	–	(3,499)	(3,499)	–	(3,499)
Transactions with owners, recognised directly in equity	–	–	–	(298)	(3,201)	(3,499)	141	(3,358)
Balance at 31 December 2017	**6,500**	**–**	**–**	**2,672**	**1,748**	**10,920**	**–**	**10,920**
Profit for the year	**–**	**–**	**–**	**–**	**1,185**	**1,185**	**–**	**1,185**
Gain on revaluation of properties	**–**	**–**	**–**	**370**	**–**	**370**	**–**	**370**
Total comprehensive income for the year	**–**	**–**	**–**	**370**	**1,185**	**1,555**	**–**	**1,555**
Issue of shares pursuant to the Reorganisation (Notes 2 & 30)	**–**	**–**	**6,500**	**–**	**–**	**6,500**	**–**	**6,500**
Elimination of the share capital Pursuant to the Reorganisation (Note 2)	**(6,500)**	**–**	**–**	**–**	**–**	**(6,500)**	**–**	**(6,500)**
Issue of shares under the capitalisation issue (Note 30)	**634**	**(634)**	**–**	**–**	**–**	**–**	**–**	**–**
Issue of shares under Share Offer (Note 30)	**212**	**10,360**	**–**	**–**	**–**	**10,572**	**–**	**10,572**
Share issue expenses	**–**	**(2,004)**	**–**	**–**	**–**	**(2,004)**	**–**	**(2,004)**
Transactions with owners, recognised directly in equity	**(5,654)**	**7,722**	**6,500**	**–**	**–**	**8,568**	**–**	**8,568**
Balance at 31 December 2018	**846**	**7,722**	**6,500**	**3,042**	**2,933**	**21,043**	**–**	**21,043**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2018

	2018 S$'000	2017 S$'000
Operating activities		
Profit before tax		
Adjustments for:	**2,411**	5,990
Finance costs	**616**	551
Interest income	**(3)**	(4)
Imputed interest income on amount due from shareholders	**–**	(375)
Depreciation of property, plant and equipment	**1,202**	1,409
Allowance for credit losses on trade receivables	**100**	–
Wavier of trade payables from suppliers	**–**	(27)
Gain on disposal of a subsidiary	**–**	(200)
Loss from changes in fair value changes of investment properties	**–**	40
Loss on disposal of property, plant and equipment	**58**	96
Operating cash flows before movement in working capital	**4,384**	7,480
Decrease in inventories	**–**	98
Decrease (increase) in trade receivables	**1,285**	(1,591)
Decrease (increase) in deposits, prepayments and other receivables	**5,043**	(5,955)
Increase in contract assets	**(16,566)**	(9,723)
Decrease in contract liabilities	**(782)**	(125)
Increase in trade and other payables	**6,057**	7,842
Cash used in operations	**(579)**	(1,974)
Income tax paid	**(48)**	–
Net cash used in operating activities	**(627)**	(1,974)
Investing activities		
Interest received	**3**	4
Net cash (outflow) inflow on disposal of subsidiaries (Note 40)	**(1)**	2
Purchase of property, plant and equipment	**(1,438)**	(345)
Proceeds from disposal of property, plant and equipment	**108**	595
Proceeds from disposal of an investment property	**925**	–
Repayment from shareholders	**243**	865
Placement of pledged deposits	**(97)**	(4)
Net cash (used in) from investing activities	**(257)**	1,117

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2018

	2018 S$'000	2017 S$'000
Financing activities		
Interest paid	**(616)**	(551)
New bank loans raised	**–**	649
(Decrease) increase in bills payables	**(1,614)**	5,213
Transaction costs directly attributable to issue of shares	**(2,004)**	–
Proceeds from issue of new shares	**10,572**	–
Repayment of borrowings	**(1,666)**	(1,367)
Repayment of obligations under finance leases	**(740)**	(866)
Net cash from financing activities	**3,932**	3,078
Net increase in cash and cash equivalents	**3,048**	2,221
Cash and cash equivalents at beginning of the year	**1,911**	(310)
Cash and cash equivalents at end of the year	**4,959**	1,911
Represented by:		
Cash and cash equivalents (Note 23)	**5,765**	2,762
Bank overdrafts (Note 28)	**(806)**	(851)
	4,959	1,911

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

1. GENERAL

The Company was incorporated and registered as an exempted company in Cayman Islands with limited liability on 8 February 2018. The registered address of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is at Blk 20, Ang Mo Kio Industrial Park 2A, #07-33 AMK Techlink, Singapore 567761. The shares of the Company are listed on the GEM of the Stock Exchange of Hong Kong Limited ("the Stock Exchange") with effect from 7 November 2018.

The Company is an investment holding company and its major operating subsidiary, Hon Industries Pte. Ltd. ("Hon Industries") is principally engaged in the building construction, engineer and construct project management service as set out in Note 42 to the consolidated financial statements.

The consolidated financial statements are presented in Singapore Dollars ("S$"), which is also the functional currency of the Company.

The consolidated financial statements are approved by the Board of Directors of the Company on 21 March 2019.

2. GROUP REORGANISATION AND BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Before the completion of the reorganisation as mentioned below ("the Reorganisation"), Hon Industries was owned by Mr. Ho Lien Hwai ("Mr. Ho") and Mr. Lim Shi Min ("Mr. Lim"), the directors and controlling shareholders of the Company.

In preparation of the listing of the Company's shares on the GEM of the Stock Exchange ("the Listing"), the companies comprising the Group underwent the Reorganisation as described below:

(i) On 30 October 2017, Bizstar Global Limited ("Bizstar Global") was incorporated in the British Virgin Islands with limited liability with authorised share capital of 50,000 shares of US$1.00 par value of a single class. Mr. Ho and Mr. Lim subscribed for and Bizstar Global allotted and issued 7 shares and 3 shares, representing 70% and 30%, respectively, of issued share capital of Bizstar Global, to Mr. Ho and Mr. Lim at par on 16 January 2018;

(ii) On 31 October 2017, Energy Turbo Limited ("Energy Turbo") was incorporated in the British Virgin Islands with limited liability with authorised share capital of 50,000 shares of US$1.00 par value of a single class. The Company subscribed for and Energy Turbo allotted and issued 1 share to the Company at par on 9 February 2018;

(iii) On 31 December 2017, Hon Industries and Mr. Tan Gim Chwee ("Mr. Tan"), the non-controlling shareholder of Advanced Engineering Group (International) Pte. Ltd. ("Advanced Engineering"), entered into a sale and purchase agreement, pursuant to which Hon Industries transferred the entirety of its 57.9% interest in the issued share capital of Advanced Engineering to Mr. Tan at a consideration of S$5,000 and the disposal has been completed on 31 December 2017;

2. GROUP REORGANISATION AND BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(iv) On 8 February 2018, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On the date of incorporation, one nil-paid share was allotted and issued to the initial subscriber, an independent third party. On the same date, the share was transferred to Bizstar Global; and

(v) On 1 October 2018, Mr. Ho, Mr. Lim, Energy Turbo and the Company entered into a sale and purchase agreement, pursuant to which Mr. Ho and Mr. Lim transferred their entire interests in the issued share capital of Hon Industries to Energy Turbo in consideration of the Company allotting and issuing 99 shares to Bizstar Global, credited as fully paid.

Upon the completion of the Reorganisation on 8 October 2018, the Company became the holding company of the subsidiaries now comprising the Group.

As details above, the Group resulting from the Reorganisation, which involves interspersing investment holding companies (including the Company and Energy Turbo) between Hon Industries and its controlling shareholders is continued to be controlled by the controlling shareholders and is regarded as a continuing entity (pooling of interest). Accordingly, the consolidated financial statements have been prepared on the basis as if the Company has always been the holding company of the companies now comprising the Group throughout the two years ended 31 December 2018, or since their respective dates of incorporation, whichever is a shorter period.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

At the date of this report, the Group has applied the following new and amendments to IFRSs that have been issued for the first time in current year:

IFRS 9	*Financial Instruments*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	Applying IFRS 9 *Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRSs 2014–2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

The application of the new and amendments to IFRSs and Interpretations in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements, except as noted below:

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

IFRS 9 — Financial Instruments

For the purpose of preparing and presenting the consolidated financial statements for the year ended 31 December 2018, the Group has consistently applied the accounting policies which conform with IFRSs, which are effective for the accounting period beginning on 1 January 2018 throughout the two years ended 31 December 2018, except for the change in classification of payments for life insurance policy from loans and receivables under IAS 39 to financial asset at fair value through profit or loss ("FVTPL") under IFRS 9, the application of IFRS 9 on 1 January 2018 has no impact on the Group financial position of the Group with regard to classification and measurement of financial instruments nor has any material additional impairment been recognised upon application of expected loss approach as at same date. The accounting policies for financial instruments under IFRS 9 are set out in Note 4 below.

New and amendments to IFRSs in issue but not yet effective

At the date of this report, the Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

The directors of the Company consider that the application of the other new and amendments to IFRSs is unlikely to have a material impact on the consolidated financial statements as well as disclosure, except as noted below:

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

IFRS 16 *Leases*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and the accounting treatments in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, cash flows in relation to operating lease payments are currently presented as operating cash flows. Upon adoption of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows, respectively by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of S$307,000 as disclosed in Note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. In addition, the Group currently considers refundable rental deposits paid of S$6,200 and refundable rental deposits received of S$Nil as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Company Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at fair values at the end of reporting period as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basic of consolidation

The consolidation financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it is has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicates that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meeting.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains controls until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies in line with the Group's accounting policies.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses, from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is earlier.

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets (and disposal groups) classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Investment properties classified as held for sale are measured using the fair value model in accordance with IAS 40 *Investment Property*.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the Group performs; or

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Revenue from project works is described in the accounting policy on construction contracts below.

Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income is recognised, on a straight-line basis, over the terms of the respective leases.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

Revenue from project works is recognised over time during the course of construction by reference to the progress towards complete satisfaction at the end of the reporting period. Progress towards complete satisfaction is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation (i.e. contract costs incurred for work performed to date) relative to the total expected inputs to the satisfaction of that performance obligation (i.e. total estimated contract cost), that best depict the Group's performance in transferring control of goods or services.

The contract assets on construction contracts represent the Group's right to consideration for work completed and not billed as the rights are conditioned on the Group's future performance in satisfying the respective performance obligations.

The contract liabilities on construction contracts represent the Group's obligation to transfer project works to customers for which the Group has received consideration from the customers.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating lease is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of the non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in a separate component of equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered the services entitling them to the contributions. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund ("CPF"), are dealt with as payments to defined contribution plans where the Company's obligation under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profits as reported in the profit or loss because of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed as at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period in when the liability is settled or the asset is realised based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purpose, are stated in the consolidation statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment loss. Revaluations are performed with sufficient regularly such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising from revaluation of such leasehold land and buildings is recognised in other comprehensive income and in revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognise as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation of such leasehold land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost or valuation of assets (other than leasehold land and buildings) over their estimated useful lives, using the straight-line method, at the following bases:

Leasehold land and buildings	2.5%
Office equipment	33.3%
Plant and machinery	10% to 20%
Motor vehicles	10% to 20%
Furniture and fittings	20%
Office renovation	10% to 20% or the lease term, whichever is shorter

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Property, plant and equipment acquired under finance lease obligation are capitalised in the consolidated financial statements and the corresponding obligations treated as liabilities. Finance charges are allocated to the consolidated statement of profit or loss and other comprehensive income to give a constant periodic rate of interest on the remaining finance lease liabilities.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are initially measured at cost, including any transaction costs.

Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's properties interest held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible assets

At the end of reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments

Initial recognition under IAS 39 and IFRS 9

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Before the adoption of IFRS 9 on 1 January 2018

Financial assets

Classification of financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, payments for life insurance policy, amounts due from shareholders, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Before the adoption of IFRS 9 on 1 January 2018 *(Continued)*

Impairment of financial assets (Continued)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Before the adoption of IFRS 9 on 1 January 2018 *(Continued)*

Financial liabilities and equity instruments

Classification of financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bills payables, amount due to Hon Industries Pte. Ltd., obligations under finance leases and borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Before the adoption of IFRS 9 on 1 January 2018 *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

After the application of IFRS 9

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

After the application of IFRS 9 *(Continued)*

Classification of financial assets (Continued)

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- 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.

By default, all other financial assets are measured subsequently at fair value through profit or loss ("FVTPL").

Financial assets at amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

After the application of IFRS 9 *(Continued)*

Financial assets at amortised cost and effective interest method (Continued)

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss using the effective interest method and is included in the "other income" line item (Note 7).

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain of loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains or losses" line item (Note 8).

All recognised financial assets of the Group that are within the scope of IFRS 9 (including trade and other receivables, pledged bank deposits and bank balance and cash) are subsequently measured at amortised cost.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

After the application of IFRS 9 *(Continued)*

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, contract assets, pledged bank deposits and bank balance and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and contract assets and measures the lifetime ECL for portfolios of trade receivables and contract assets that share similar economic risk characteristics. The ECL on these financial assets are estimated using an analysis of assets by risk level of customers and apply a probability-weighted estimate of the credit losses within the relevant risk type. The probability-weighted estimate of the credit losses is determined based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

After the application of IFRS 9 *(Continued)*

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from financial analysts and governmental bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

After the application of IFRS 9 *(Continued)*

Impairment of financial assets (Continued)

(i) Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default (i.e. no default history); ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

After the application of IFRS 9 *(Continued)*

Impairment of financial assets (Continued)

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

After the application of IFRS 9 *(Continued)*

Impairment of financial assets (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are past due over one year, whichever is earlier. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

After the application of IFRS 9 *(Continued)*

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification of financial liabilities and equity instruments

Financial liabilities and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not i) contingent consideration of an acquirer in a business combination; ii) held-for-trading; or iii) designated measured as at FVTPL, are subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivables can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors are required to make judgements that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months, are discussed below.

Revenue recognition of construction work

The Group recognises contract revenue and profit of a construction contract during the course of construction by reference to the progress towards complete satisfaction at the end of the reporting period. Progress towards complete satisfaction is measured based on input method. Estimated construction revenue is determined with reference to the terms of the relevant contracts. Contract costs which mainly comprise sub-contracting charges and costs of materials are estimated by the management on the basis of quotations from time to time provided by the major subcontractors or suppliers involved and the experience of the management. Notwithstanding that management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue and profit recognised.

As at 31 December 2018, the carrying amounts of contract assets and contract liabilities are disclosed in Note 21.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of trade receivables and contract assets

Prior to 1 January 2018, the management assesses at the end of reporting period whether there is any objective evidence that trade receivables are impaired. If there is objective evidence that an impairment loss on trade receivables has been incurred, the amount of loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. Where the actual future cash flows are less than expected, including unbilled revenue where the actual collection of receivables upon billing to customers are less than expected, an impairment loss may arise.

As at 31 December 2017, the carrying amounts of trade receivables of the Group were approximately S$12,020,000 as set out in Note 19.

Starting from 1 January 2018, the Group recognises lifetime ECL for trade receivables and contract assets, using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. As at 31 December 2018, the carrying amounts of trade receivables and contract assets were approximately S$10,635,000 (net of allowance for credit losses of S$100,000) and S$42,154,000 are set out in Notes 19 and 21 respectively.

6. REVENUE AND SEGMENT INFORMATION

Continuing operations

Revenue represents the fair value of amounts received and receivable from the provision of project works provided by the Group to external customers. The Group's operations are solely derived from Singapore. Information are reported to the executive directors of the Company, who are also the chief operating decision maker ("CODM") and the directors of the operating subsidiary, for the purposes of resource allocation and performance assessment. The accounting policies are the same as the Group's accounting policies described in Note 4 to the consolidated financial statements. No analysis of the Group's results nor assets and liabilities is regularly provided to the CODM for review and the CODM reviews the overall results and financial performance of the Group as a whole. Accordingly, only entity-wide disclosures on services, major customers and geographical information are presented.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue from major services

The Group derives all of its revenue from provision of project works over time in the following major services.

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Project works for:		
Building and infrastructure	**70,381**	85,141
Interior decoration	**6,009**	9,083
Term contracts	**18,020**	6,617
	94,410	100,841

Revenue are derived from the below customers:

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Government and governmental bodies	**70,960**	56,459
Private companies	**23,450**	44,382
	94,410	100,841

All the Group's revenue are made directly with the customers. Contracts with the Group's customers are mainly fixed price contracts. The respective project works is a single performance obligation that the Group satisfies over time. The period of project works and support services vary from 1 to 3 years.

The customers of the Group include Singapore Government agencies (including statutory boards) and private companies (including housing developers, healthcare providers, institutions of learning, commercial building owners and industrial building owners) in Singapore.

As at 31 December 2018, the transaction price allocated to performance obligation that are unsatisfied (or partially unsatisfied) in relation to project works was approximately S$111,919,000 (2017: S$151,300,000). The directors expect that the unsatisfied performance obligation will be recognised as revenue varying from 1 to 3 years according to the contract period.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group from continuing operations are as follows:

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Customer I	**17,389**	38,203
Customer II	**42,628**	28,053
Customer III	**9,926**	NA[(i)]
Customer IV	**NA[(i)]**	18,205

Note:

(i) The corresponding revenue did not contribute over 10% of the total revenue of the Group for the respective year.

Geographical information

The Group's revenue is all derived from operations in Singapore and the Group's non-current assets are all located in Singapore.

7. OTHER INCOME

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Continuing operations		
Imputed interest income on amounts due from shareholders (Note 22)	**–**	375
Government grant and subsidies[(i)]	**90**	174
Engineering service income	**840**	239
Rental income	**563**	116
Waiver of trade payables from suppliers	**–**	27
Sales of scrap metal	**288**	57
Sundry income	**19**	65
	1,800	1,053

Note:

(i) The government grants and subsidies received mainly comprise the Special Employment Credit ("SEC") in Singapore. Under SEC, the government aims to encourage and facilitate Singapore registered business to hire older Singaporean workers.

8. OTHER GAINS OR LOSSES

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Continuing operations		
Allowance for credit losses on trade receivables	**(100)**	–
Loss on disposal of property, plant and equipment	**(58)**	(96)
Loss from changes in fair value of investment properties	**–**	(20)
Compensation expenses[(i)]	**(2,284)**	(2,941)
Compensation income from insurance company[(ii)]	**2,284**	2,941
	(158)	(116)

Notes:

(i) The amount represents payments of claim arising from loss and damage to property in respect of an accidental fire incident at the work site of a project in May 2017 ("Claims"). An amount of S$2,834,000 (2017: S$1,510,000) were paid to the relevant employees and subcontractors during the year ended 31 December 2018. The remaining balance of S$881,000 (2017: S$1,431,000) are included in claims payables at 31 December 2018 (Note 25).

(ii) The amount represents the income from an insurance company in relation to the Claims. An amount of S$5,044,000 (2017: S$120,000) were received during the year ended 31 December 2018. The remaining balance S$61,000 (2017: S$2,821,000) is included in insurance claims receivables (Note 20) as at 31 December 2018.

9. FINANCE COSTS

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Continuing operations		
Interest on:		
Bank borrowings	**157**	191
Bills payables	**391**	245
Finance leases	**52**	81
Bank overdrafts	**16**	5
	616	522

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Continuing operations		
Tax expense comprises:		
Current tax		
— Singapore corporate income tax ("CIT")	**1,189**	10
— Underprovision in prior years	**48**	–
Deferred tax (Note 29)	**(11)**	1,187
	1,226	1,197

Singapore CIT is calculated at 17% of the estimated assessable profits eligible for CIT rebate of 40%, capped at S$15,000 for YA2018, and adjusted to 20% capped at S$15,000 for YA2019. Singapore incorporated companies can also enjoy 75% tax exemption on the first S$10,000 of normal chargeable income and a further 50% tax exemption on the next S$290,000 of normal chargeable income.

The tax charge for the year can be reconciled to the profit before tax as follows:

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Profit before tax on continuing operations	**2,411**	6,385
Tax at Singapore CIT rate of 17%	**410**	1,085
Tax effect of expenses not deductible for tax purpose	**840**	149
Tax effect of income not taxable for tax purpose	**–**	(7)
Underprovision of income tax in prior years	**48**	–
Effect of tax concession[(i)]	**(69)**	(46)
Others	**(3)**	16
Income tax expense for the year	**1,226**	1,197

Note:

(i) Tax concession pertains to incentive schemes given by the Singapore tax authority. One of the Major tax concession is Productivity and Innovation Credit ("PIC") Scheme. Under the PIC Scheme, the Group enjoys 400% tax deductions for qualifying expenditure incurred during the Years of Assessment, 2011 to 2019.

11. PROFIT FOR THE YEAR

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Continuing operations		
Profit for the year has been arrived at after charging/(crediting):		
Directors' emoluments (Note 13)		
Salaries, allowances and other benefits	**906**	865
Retirement benefit scheme contributions	**36**	39
	942	904
Other staff costs		
Salaries, wages and other benefits	**7,476**	7,364
Retirement benefits scheme contributions	**340**	370
	7,816	7,734
Total staff costs	**8,758**	8,638
Audit fees paid to auditors of the Company:		
— Annual audit fees	**135**	51
— Audit fees in connection with the listing of the Company	**345**	–
Audit fees paid to member firm of the auditors of the Company:		
— Audit fees in connection with the listing of the Company	**305**	–
Listing expenses(i)	**3,878**	–
Depreciation of property, plant and equipment	**1,202**	1,299
Loss on disposals of property, plant and equipment	**58**	96
Cost of materials recognised as expenses	**9,556**	15,764
Subcontractor costs recognised as expenses	**61,551**	61,089
Gross rental income from investment properties	**(5)**	(82)
Less: Direct operating expenses incurred for investment properties that generated rental during the year	**3**	7
	(2)	(75)
Allowance for credit losses on trade receivables	**100**	–

Note:

(i) Included in listing expenses are non-audit fees of S$345,000 (2017: S$Nil) paid to the auditors of the company and S$305,000 (2017: S$Nil) paid to member firm of auditors of the company in relation to the Company's listing on the GEM of the Stock Exchange on 7 November 2018.

12. DISCONTINUED OPERATION

On 31 December 2017, the Group entered into a sale agreement with Mr. Tan, the non-controlling shareholder of Advanced Engineering, to dispose of a subsidiary, Advanced Engineering, which carried out the manufacturing and repairing business. The disposal was completed on 31 December 2017, on which date control of Advanced Engineering passed to the acquirer.

The loss for the year from the discontinued manufacturing and repairing business is set out below.

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Loss of manufacturing and repairing business for the year	–	(595)
Gain on disposal of manufacturing and repairing business (Note 40)	–	200
	–	(395)

The results of the manufacturing and repairing business for the year ended 31 December 2018, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Revenue	–	1,954
Cost of sales	–	(1,397)
Other income	–	100
Administrative expenses	–	(1,223)
Finance costs	–	(29)
Loss before tax	–	(595)
Income tax	–	–
Loss for the year and total comprehensive loss for the year	–	(595)

12. DISCONTINUED OPERATIONS *(Continued)*

Loss for the year from discontinued operations includes the following:

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Auditor's remuneration	–	7
Depreciation of property, plant and equipment	–	110
Loss on fair value changes of investment property	–	20

Cash flows from the discontinued operations are as follows:

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Net cash from operating activities	–	2
Net cash used in investing activities	–	(65)
Net cash used in financing activities	–	(45)
Net cash outflows	–	(108)

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Name	Position	Date of appointment as the directors of the Company
Mr. Ho Lien Hwai ("Mr. Ho")	Executive Director and Chairman of the Board	8 February 2018
Mr. Lim Shi Min ("Mr. Lim")	Executive Director	8 February 2018
Ms. Ng Mei Yun ("Ms. Ng")	Executive Director	8 February 2018
Mr. Lau Wang Lap	Independent non-executive Director	4 October 2018
Mr. Ng Chye Kim	Independent non-executive Director	4 October 2018
Mr. Chan Shun Yin	Independent non-executive Director	4 October 2018

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

Details of the emoluments paid or payable (including emoluments for the services as employees or directors of the group entities prior to becoming directors of the Company) to the directors and chief executive of the Company for their services rendered to the entities comprising the Group are as follows:

	Fee	Salaries, allowances and other benefits	Discretionary bonus(ii)	Retirement benefit scheme contributions	Total
	S$'000	S$'000	S$'000	S$'000	S$'000
Year ended 31 December 2018					
Mr. Ho(i)	**–**	**352**	**10**	**12**	**374**
Mr. Lim	**–**	**352**	**10**	**12**	**374**
Ms. Ng	**–**	**164**	**3**	**12**	**179**
Mr. Lau Wang Lap	**5**	**–**	**–**	**–**	**5**
Mr. Ng Chye Kim	**5**	**–**	**–**	**–**	**5**
Mr. Chan Shun Yin	**5**	**–**	**–**	**–**	**5**
	15	**868**	**23**	**36**	**942**
Year ended 31 December 2017					
Mr. Ho(i)	–	360	–	12	372
Mr. Lim	–	360	–	12	372
Ms. Ng	–	129	16	15	160
	–	849	16	39	904

Notes:

(i) Mr. Ho was appointed as an executive director and the chairman of the board of directors of the Company. In addition to above, the Group had purchased a life insurance policy with an insurance company to insure Mr. Ho (Note 18).

(ii) Discretionary bonus was determined with reference to the Group's operating results and individual performance of the executive directors of the Company.

(iii) No other retirement benefits were paid to Mr. Lim or Ms. Ng in respect of their respective other services in connection with the management of the affairs of the Company or its subsidiaries undertaking.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

The Executive Directors' emoluments shown above were for their services in connection with the management affairs of the Company and the Group.

The Independent Non-Executive Directors' emoluments shown above were for their services as directors of the Company.

During the year, no remuneration was paid by the Group to the directors or as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any remuneration during the year.

Employees' remuneration

The five highest paid individuals of the Group included three (2017: three) executive directors for the year ended 31 December 2018. Details of the remuneration for the remaining individuals who are not directors of the company are as follows:

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Salaries, allowances and other benefits	**295**	276
Discretionary bonus	**5**	33
Retirement benefit scheme contributions	**25**	30
	325	339

The number of the highest paid employee who are not the directors of the Company whose emoluments fell within the following band is as follows:

	Year ended 31 December	
	2018	2017
	Number of employee	
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1

14. DIVIDENDS

No dividend has been paid or declared by the Company or group entities during year ended 31 December 2018. During the prior year, an interim dividend of S$53.8 cents per share, in aggregate amount of S$3,499,000, had been declared by Hon Industries which are settled through the amounts due from shareholders.

15. EARNINGS PER SHARE

	Year ended 31 December	
	2018	2017
For continuing and discontinued operations		
Profit attributable to the owners of the Company	**S$1,185,000**	S$5,044,000
Weighted average number of ordinary shares in issue	**389,260,000**	360,000,000
Basic and diluted earnings per share (S$ cents)	**0.30**	1.40
For continuing operations		
Profit attributable to the owners of the Company	**S$1,185,000**	S$5,188,000
Weighted average number of ordinary shares in issue	**389,260,000**	360,000,000
Basic and diluted earnings per share (S$ cents)	**0.30**	1.44

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company and the weighted average number of shares in issue. The number of shares for the purpose of calculating basic earnings per share for the year ended 31 December 2017 is based on 360,000,000 shares, which were issued pursuant to the Group Reorganisation, excluding non-controlling shareholder's interest, and deemed to have been issued since 1 January 2017.

Diluted earnings per share is the same as the basic earnings per share because the Group has no dilutive securities that are convertible into shares during the years ended 31 December 2018 and 2017.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings S$'000	Office equipment S$'000	Plant and machinery S$'000	Motor vehicles S$'000	Furniture and fittings S$'000	Office renovation S$'000	Total S$'000
COST OR VALUATION							
As at 1 January 2017	12,048	671	2,503	3,297	208	677	19,404
Additions	–	78	508	195	12	12	805
Surplus on valuation	203	–	–	–	–	–	203
Disposals	–	–	(276)	(722)	–	–	(998)
Disposal of a subsidiary (Note 40)	(1,226)	(55)	(91)	(101)	(13)	(272)	(1,758)
As at 31 December 2017	11,025	694	2,644	2,669	207	417	17,656
Additions	1,200	17	16	–	2	203	1,438
Surplus on valuation	55	–	–	–	–	–	55
Disposals	–	–	(95)	(418)	–	–	(513)
Written off	–	(65)	–	–	–	(43)	(108)
As at 31 December 2018	12,280	646	2,565	2,251	209	577	18,528
ACCUMULATED DEPRECIATION							
As at 1 January 2017	249	454	921	746	114	220	2,704
Charge for the year	295	153	494	326	32	109	1,409
Elimination on revaluation	(544)	–	–	–	–	–	(544)
Elimination on disposals	–	–	(147)	(160)	–	–	(307)
Disposal of a subsidiary (Note 40)	–	(46)	(83)	(64)	(12)	(126)	(331)
As at 31 December 2017	–	561	1,185	848	134	203	2,931
Charge for the year	315	93	421	265	30	78	1,202
Elimination on revaluation	(315)	–	–	–	–	–	(315)
Elimination on disposals	–	–	(63)	(284)	–	–	(347)
Elimination on written off	–	(65)	–	–	–	(43)	(108)
As at 31 December 2018	–	589	1,543	829	164	238	3,363
CARRYING VALUES							
As at 31 December 2018	12,280	57	1,022	1,422	45	339	15,165
As at 31 December 2017	11,025	133	1,459	1,821	73	214	14,725

Leasehold land and buildings are carried at valuation while all other items of property, plant and equipment are carried at cost less accumulated depreciation.

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying value of the following items are assets held under finance leases:

	As at 31 December	
	2018	2017
	S$'000	S$'000
Plant and machinery	**570**	969
Motor vehicles	**1,013**	1,724
Office equipment	**–**	11
	1,583	2,704

Included in the additions of property, plant and equipment amounting S$Nil (2017: S$461,000), were acquired under hire purchase arrangements during the year ended 31 December 2018. These constituted as non-cash transactions during the year.

Fair value measurement of the Group's leasehold land and buildings

The fair value measurement of the Group's leasehold land and buildings as at 31 December 2018 and 2017 was performed by Roma Appraisals Limited, independent valuers located at 22/F, China Overseas Building, 139 Hennessy Road, Wan Chai, Hong Kong that is not related to the Group. The valuation committee works closely with the qualified external valuers, who is a Registered Professional Surveyor (General Practice), to establish the appropriate valuation techniques and inputs to the model.

The fair value of the leasehold land and buildings was determined based on the market comparable approach that reflects recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the building under review.

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Description	Fair Value as at 31 December $'000	Valuation technique	Significant unobservable input	Relationship of unobservable inputs to fair value
2018				
Leasehold land and buildings	12,280	Market comparison approach	Average market price of $4,900 per square metre	A significant increase in the price per square foot used would result in a significant increase in fair value, and vice versa.
2017				
Leasehold land and building	11,025	Market comparison approach	Average market price of $4,800 per square metre	A significant increase in the price per square foot used would result in a significant increase in fair value, and vice versa.

The fair value measurement as at 31 December 2018 and 2017 is categorised as level 3. There were no transfers into or out of Level 3 during the years ended 31 December 2018 and 2017.

If the leasehold land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of S$9,540,000 (2017: S$8,587,000) for the year ended 31 December 2018.

As at 31 December 2018 and 2017, the leasehold land and buildings are mortgaged to the bank to secure for certain bank loans of the Group (Note 28).

17. INVESTMENT PROPERTIES

	As at 31 December	
	2018	2017
	S$'000	S$'000
Beginning of the year	**–**	1,890
Reclassification to asset classified as held-for-sale (Note 24)	**–**	(925)
Disposal of a subsidiary (Note 40)	**–**	(925)
Fair value adjustments	**–**	(40)
End of the year	**–**	–

The above investment properties are located in Singapore.

The investment properties at fair value of S$925,000 were reclassified as asset classified as held-for-sale on 31 December 2017.

As at 31 December 2017, the fair value at date of transfer to asset classified as held-for-sale was determined based on valuation carried out by Roma Appraisals Limited, independent valuer not related to the Group. Direct comparison approach has been adopted, in arriving at the open market value for the year ended 31 December 2017. The direct comparison approach involves the analysis of comparable sales of similar properties and adjusting the sale prices to that reflective of the investment property. In determining the fair value, the valuers have used valuation techniques which involve certain estimates. The key assumptions used to determine the fair value of investment property include price per square foot. In relying on the valuation reports, management has exercised its judgment and is satisfied that the valuation methods and estimates are reflective of current market conditions.

In estimating the fair value, the highest and best use is their current use.

Description	**Valuation technique**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
Commercial properties units located in Singapore	Direct comparison approach	Price per square foot	A significant increase in the price per square foot used would result in a significant increase in fair value, and vice versa.

The fair values of the Group's investment properties as at 31 December 2017 (on which the investment property was transferred to asset classified held-for-sale) are S$925,000.

As at 31 December 2017, the fair value measurement is categorised as level 3 and there were no transfer into or out of Level 3 during the year.

18. PAYMENTS FOR LIFE INSURANCE POLICY/FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2018	2017
	S$'000	S$'000
Payments for life insurance policy		
— Loans and receivables cost	**–**	328
— Financial asset at fair value through profit or loss ("FVTPL")	**328**	–
	328	328

On 23 March 2016, the Group entered into a life insurance policy with an insurance company to insure Mr. Ho Lien Hwai, a director of the Company (the "Policy"). Under this Policy, the Group is the beneficiary and policy holder and the total insured sum is approximately S$1,002,000. The Group paid a single premium of S$328,000 at inception. The Group can request a partial surrender or full surrender of the policy at any time and receive cash back based on the account value of the policy (the "Account Value") at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus any charges made in accordance with the terms and conditions of the policy. If such withdrawal is made between the 1st to 19th policy years, a pre-determined specified surrender charge would be deducted from the Account Value. This insurance company will pay the Group a guaranteed interest rate of 2% per annum and a variable return per annum afterwards during the effective period of the policy.

The payments for life insurance policy were classified as loans and receivables as at 31 December 2017. Upon the application of IFRS 9 on 1 January 2018, such balances were reclassified as financial assets at FVTPL which are measured at fair value at the end of reporting period with any fair value gains or losses recognised in profit or loss.

19. TRADE RECEIVABLES

	As at 31 December	
	2018	2017
	S$'000	S$'000
Trade receivables	**7,005**	9,262
Less: Allowance for credit losses	**(100)**	–
	6,905	9,262
Unbilled revenue(i)	**3,730**	2,758
Total trade receivables	**10,635**	12,020

Note:

(i) Unbilled revenue are those accrued revenue which payment certificate is issued by the customers but no billing has been raised to customer.

The Group grants credit terms to customers typically range from 0 to 35 days from the invoice date. No interest is charged on outstanding trade receivables.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed periodically. The majority of the Group's trade receivables that are neither past due nor impaired have good credit quality with reference to respective settlement history. The Group does not hold any collateral over these balances.

19. TRADE RECEIVABLES *(Continued)*

The table below is an ageing analysis of trade receivables net of allowance for credit losses presented based on the invoice dates at the end of reporting date.

	As at 31 December	
	2018	2017
	S$'000	S$'000
Within 30 days	**4,391**	8,079
31 days to 60 days	**1,365**	347
61 days to 90 days	**961**	414
Over 90 days	**188**	422
	6,905	9,262

Prior to 1 January 2018, the Group recognised the allowance for certain trade receivables which has been past due and considered as doubtful debts or irrecoverable by the management.

Included in the Group's trade receivables balance as at 31 December 2017 with aggregate carrying amount of S$1,560,000, which are past due at the end of reporting period for which the Group has not provided for impairment, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience.

Ageing of trade receivables which are past due but not impaired:

	As at 31 December 2017 S$'000
Overdue	
0–30 days	409
31–60 days	315
Over 60 days	836
	1,560

19. TRADE RECEIVABLES *(Continued)*

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. In the opinion of the directors of the Company, apart from those balances for which allowances have been provided, other trade receivables at the end of reporting period are of good credit quality which considering the high credibility of these customers, good track record with the Group, subsequent settlement and forward-looking information and the Group considers any change in the expected life of the trade receivables at the end of reporting period, the management believes that no impairment allowance is necessary in respect of unsettled balances.

Starting from 1 January 2018, the Group applied simplified approach to provide the expected credit losses prescribed by IFRS 9. The impairment methodology is set out in Notes 4 and 39(b)(ii) respectively.

As part of the Group's credit risk management, the Group assesses the impairment for its customers based on different group of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Details of the credit risk assessment are included in Note 39(b)(ii).

Movement in loss allowance:

	As at 31 December	
	2018	2017
	S$'000	S$'000
At the beginning of the year	**–**	–
Effect of adoption of IFRS 9	**100**	–
At the end of the year	**100**	–

All of the above impairment losses related to receivables arising from contracts with customers.

The movement for the year ended 31 December 2018, i.e. in lifetime ECL, has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9. During the year ended 31 December 2018, impairment loss of S$100,000 was recognised for credit-impaired trade receivables and no impairment loss was recognised for non-credit impaired trade receivables.

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	S$'000	S$'000
Deposits	**284**	243
Prepayments	**113**	313
Prepayments to sub-contractors[(i)]	**2,691**	3,079
Insurance claims receivables (Note 8)[(ii)]	**61**	2,821
Other receivables[(iii)]	**–**	1,816
Goods and services tax claimable	**80**	–
Others	**2**	2
	3,231	8,274

Notes:

(i) The prepayments to sub-contractors represent down payment for certain public residential projects. Such amounts will be utilised within 12 months after reporting period.

(ii) The directors of the Company considered that the ECL for deposits and insurance claims receivables is insignificant as at 31 December 2018.

(iii) The amounts represent amounts due from Mr. Tan, a non-controlling shareholder of Advanced Engineering, and Advanced Engineering. Such balances were non-trade related, non-interest bearing and repayable on demand.

21. CONTRACT ASSETS AND LIABILITIES

	As at 31 December	
	2018	2017
	S$'000	S$'000
Analysed for reporting purposes as:		
Contract assets	**42,154**	25,588
Contract liabilities	**–**	(782)
	42,154	24,806

21. CONTRACT ASSETS AND LIABILITIES *(Continued)*

Movements of contract liabilities as follows:

	As at 31 December	
	2018	2017
	S$'000	S$'000
At the beginning of the year	**782**	907
Receipt from customers	**7,733**	6,076
Revenue recognised upon the provision of project works	**(8,515)**	(6,201)
At the end of the year	**–**	782

As at 31 December 2018, included in contract assets are retention money held by customers for construction work amounted to S$6,793,000 (2017: S$6,580,000), which were expected to be recovered or settled in more than twelve months from the end of reporting period.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in satisfying the respective performance obligations at the reporting date on construction contracts in respect of project works.

The contract liabilities primarily relate to the Group's obligation to transfer project works services to customers for which the Group has received consideration from the customers.

Retention money is unsecured, interest-free and expected to be received within the Group's normal operating cycle.

The directors of the Company considered that the ECL for contract assets is insignificant as at 31 December 2018.

22. AMOUNTS DUE FROM SHAREHOLDERS

	As at 31 December		Maximum amount outstanding during year ended 31 December	
	2018	2017	**2018**	2017
	S$'000	S$'000	**S$'000**	S$'000
Mr. Ho	**–**	121	**121**	2,807
Mr. Lim	**–**	122	**122**	1,425
	–	243	**243**	4,232

The balances were non-trade related, unsecured, interest free and repayable on demand as at 31 December 2017. As at 31 December 2017, the amount was expected to be settled within twelve months after the end of the reporting period and were, therefore, classified under current assets.

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

	As at 31 December	
	2018	2017
	S$'000	S$'000
Pledged bank deposits(i)	**801**	704
Bank balances and cash(ii)	**5,765**	2,762

Notes:

(i) The balances represent fixed deposits placed to banks for the purpose of securing certain bills payable and borrowings as disclosed in Note 26 and Note 28, respectively. The balances mature on varying dates within 1 to 12 months and carry interest ranging from 0.35% to 0.70% (2017:0.35% to 1.00%) per annum as at 31 December 2018.

(ii) The Group's bank balances carry interest at prevailing market rate of 0.10% (2017:0.10%) per annum at 31 December 2018.

The directors of the Company considered that the ECL on bank balances and pledged bank deposits is insignificant as at 31 December 2018.

24. ASSET CLASSIFIED AS HELD-FOR-SALE

	As at 31 December	
	2018	2017
	S$'000	S$'000
Commercial property classified as investment property	**–**	925
Less: Liabilities associated with assets classified as held-for-sale	**–**	(674)
Net assets	**–**	251

On 18 December 2017, a potential buyer, an independent third party, entered into an agreement with the Group to purchase its investment property for a cash consideration of S$925,000. Accordingly, the investment property was presented as asset classified as held-for-sale in the consolidated statement of financial position. This disposal has been completed on 13 March 2018. Disclosure of fair value measurement of the investment property is set out in Note 17.

The investment property with an aggregated carrying value of approximately S$925,000 as at 31 December 2017 is secured to the bank for bank loans and facilities granted, which was presented as liabilities associated with assets classified as held-for-sale as at 31 December 2017.

25. TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	S$'000	S$'000
Trade payables	**19,843**	16,265
Trade accruals	**10,042**	7,275
Retention payables	**3,381**	3,788
Claims payables (Note 8)	**881**	1,431
Goods and service tax payables	**–**	204
Others payables and accruals	**1,806**	934
	35,953	29,897

The average credit period of the trade payables is 60 days (2017: 60 days). No interest is charged on overdue trade payables.

25. TRADE AND OTHER PAYABLES *(Continued)*

The Group has financial risk management policy in place to ensure that all payable are within the credit time frame. The ageing analysis of the trade payables based on invoice date at the end of reporting periods are as follows:

	As at 31 December	
	2018	2017
	S$'000	S$'000
Trade payables:		
1–30 days	**4,136**	4,948
31–60 days	**2,824**	5,888
61–90 days	**2,373**	2,699
Over 90 days	**10,510**	2,730
	19,843	16,265

The retention payables are aged within one year based on the invoice date at the end of reporting periods.

26. BILLS PAYABLES

The ageing analysis of the bills payables based on issuance date at the end of reporting periods are as follows:

	As at 31 December	
	2018	2017
	S$'000	S$'000
1–30 days	**2,787**	6,079
31–60 days	**3,914**	2,759
61–90 days	**2,955**	3,683
Over 90 days	**3,125**	1,874
	12,781	14,395

Bills payables are guaranteed by joint and several personal guarantees given by Mr. Ho and Mr. Lim and secured by pledged deposits. The effective interest rate ranging from 3.2% to 4.7% (2017: 2.6% to 4.4%) per annum as at 31 December 2018.

27. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain of its motor vehicles and plant and equipment under finance leases, with joint and several personal guarantees given by Mr. Ho and Mr. Lim. The lease term is 7 to 10 years. As at 31 December 2018, the effective finance leases rate ranging from 1.8% to 4.0% (2017: 1.9% to 4.1%) per annum. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	S$'000	S$'000	**S$'000**	S$'000
Obligations under finance lease payable:				
Within one year	**397**	701	**370**	648
In the second to fifth year inclusive	**392**	868	**374**	817
More than five years	**–**	19	**–**	19
	789	1,588	**744**	1,484
Less: Future finance charges	**(45)**	(104)	**N/A**	N/A
Present value of lease obligations	**744**	1,484	**744**	1,484
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(370)**	(648)
Amount due for settlement after 12 months			**374**	836

28. BORROWINGS

	As at 31 December	
	2018	2017
	S$'000	S$'000
Bank overdrafts[(i)]	**806**	851
Bank loans[(ii)]		
— secured	**5,353**	5,630
— guaranteed and unsecured	**–**	715
	6,159	7,196

Carrying amount of the above bank overdrafts and loans analysed are as follows:

	As at 31 December	
	2018	2017
	S$'000	S$'000
Repayable within one year	**1,092**	1,723
Repayable more than one year but not exceeding two years	**295**	423
Repayable more than two years but not exceeding five years	**933**	922
Repayable more than five years	**3,839**	4,128
	6,159	7,196
Less: Amounts due within 12 months (shown under current liabilities)	**(1,092)**	(1,723)
Amounts due for settlement after 12 months	**5,067**	5,473

Notes:

(i) Bank overdrafts of the Group are guaranteed by joint and several personal guarantees given by Mr. Ho and Mr. Lim. The effective interest rates for the floating rate bank overdrafts ranging from 5.25% to 6.75% (2017:4.25% to 6.75%) per annum as at 31 December 2018.

(ii) The bank loans are variable-rate borrowings which carry interest at (i) Singapore Interbank Offered Rate ("SIBOR") plus 3.0% per annum or (ii) 1-month Cost of Funds of the bank plus 1.15% per annum for the year ended 31 December 2018. As at 31 December 2018, the effective interest rate on the Group's borrowings is at 2.74% (2017: ranging from 2.24% to 2.32%) per annum.

The bank loans are guaranteed by (i) joint and several personal guarantees given by Mr. Ho and Mr. Lim; and secured by (ii) pledged deposits; and/or (iii) the Group's properties with an aggregate carrying value of approximately S$12,280,000 (2017:S$11,025,000) as at 31 December 2018 and/or (iv) the properties of Advanced Engineering as at 31 December 2017.

29. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the reporting periods:

	Tax loss	Accelerated accounting/ tax depreciation	Total
	S$'000	S$'000	S$'000
As at 1 January 2017	957	19	976
Charge to profit or loss	(957)	(230)	(1,187)
As at 31 December 2017	–	(211)	(211)
Charge from profit or loss	–	11	11
As at 31 December 2018	**–**	**(200)**	**(200)**

As at 1 January 2017, the Group has unused tax losses of S$5,619,000 available for offset against future profits and deferred tax asset has been recognised in respect of such losses. The unused tax losses have been fully utilised during the year ended 31 December 2017.

30. SHARE CAPITAL

For the purpose of presenting the share capital of the Company prior to the Group Reorganisation in the consolidated statement of financial position, the balance as at 1 January 2018 represented the share capital of Hon Industries as the Company was incorporated in the Cayman Islands on 8 February 2018.

The Company was successfully listed on the GEM of the Stock Exchange on 7 November 2018 by way of placing of 108,000,000 ordinary shares and public offer of 12,000,000 new shares at the price of HK$0.50 per share ("Share Offer"). All issued shares rank pari passu in all respect with each other.

	Number of shares	Par value	Share capital
		HK$	HK$'000
Authorised share capital of the Company:			
At date of incorporation on 8 February 2018[(i)]	38,000,000	0.01	380
Increase on 4 October 2018[(ii)]	9,962,000,000	0.01	99,620
At 31 December 2018	10,000,000,000		100,000

30. SHARE CAPITAL *(Continued)*

	Number of shares	Share capital S$'000
Issued and fully paid of the Company:		
At date of incorporation on 8 February 2018[(i)]	1	–
Issue of shares pursuant to the Group Reorganisation[(iii)]	99	–
Issue of shares under the capitalisation issue[(iv)]	359,999,900	634
Issue of shares under the Share Offer[(v)]	120,000,000	212
At 31 December 2018	480,000,000	846
Issued and fully paid of Hon Industries:		
At 1 January 2017 and 31 December 2017	6,500,000	6,500

Notes:

(i) On 8 February 2018, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On the date of incorporation, one nil-paid share was allotted and issued to the initial subscriber, an independent third party. On the same date, the share was transferred to Bizstar Global.

(ii) On 4 October 2018, the authorised share capital of the Company increased from HK$380,000 divided into 38,000,000 shares to HK$100,000,000 divided into 10,000,000,000 shares by the creation of an additional 9,962,000,000 shares which rank pari passu in all respects with the existing shares.

(iii) On 1 October 2018, Mr. Ho, Mr. Lim, Energy Turbo and the Company entered into a sale and purchase agreement, pursuant to which Mr. Ho and Mr. Lim transferred their entire interests in the issued share capital of Hon Industries Pte Ltd. to Energy Turbo in consideration of the Company allotting and issuing 99 shares to Bizstar Global Limited, credited as fully paid.

(iv) On 4 October 2018 , approximately HK$3,599,999 standing to the credit of the share premium account of the Company was capitalised by applying such sum in paying up in full at par 359,999,900 shares for allotment and issue to the Shareholders in proportion to their then shareholdings in the Company so that the shares allotted and issued shall rank pari passu in all respects with the then existing issued shares. This transaction is a non-cash transaction.

(v) On 7 November 2018, the Company's total number of ordinary shares, which are issued and fully paid, increased to 480,000,000 shares by issuing 479,999,900 new shares comprising 359,999,900 shares arising from the capitalisation issue and 120,000,000 shares from public offer. The 120,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$0.50 per share for a total consideration of HK$60,000,000 (equivalent to approximately S$10,572,000) with listing expenses of approximately HK$11,391,000 (equivalent to approximately S$2,004,000) charged to share premium. On the same date, the issued shares were successfully listed on GEM of the Stock Exchange.

31. SHARE PREMIUM

Share premium represents the excess of share issue over the par value.

32. MERGER RESERVE

Merger reserve represents the share capital of the subsidiary when entity under common control are accounted for by applying the pooling of interest method as described in Note 2 to the financial statements.

33. REVALUATION RESERVE

The revaluation reserve arises from the revaluation of property, plant and equipment as set out in Note 16 in the financial statement.

34. SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution passed by the shareholder of the Company on 4 October 2018 (the "Share Option Scheme"), the Company may grant options to eligible directors of the Group, eligible employees of the Group and other selected participants, for the recognition of their contributions, to subscribe for shares ("Shares") in the Company with a payment of HK$1 upon each grant of options offered.

The exercise price of the share option will be not less than the highest of:

(i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date (the "Offer Date") of grant of the particular option, which must be a business day;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the Offer Date of the option; and

(iii) the nominal value of a Share on the Offer Date.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme, or any conditions stipulated by the Board of Directors.

The maximum number of shares in respect of which options may be granted shall not exceed 10% of the number of shares of Company in issue from time to time. Unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme, no person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of Company.

Up to the date of issuance of the consolidated financial statements, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

During the year ended 31 December 2018, no share options has been granted nor exercised and there is no outstanding share options of the Company as at 31 December 2018.

35. OPERATING LEASES COMMITMENTS

The Group as lessee

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Minimum lease payments paid under operating leases during the year	**194**	113

At the end of the reporting period, the Group had outstanding for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Within one year	**103**	62
In the second to fifth year inclusive	**204**	62
	307	124

Operating lease payments represent rentals payable by the Group for its rental premises and office equipment. Lease term are negotiated and rentals are fixed for an average of two years (2017: two years).

The Group as lessor

Rental income from certain properties earned during the year ended 31 December 2018 was S$162,000 (2017: S$82,000). All of the properties held have committed tenants for the next 1 year from date of rental agreements.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	Year ended 31 December	
	2018	2017
	S$'000	S$'000
Within one year	**51**	147

36. RETIREMENT BENEFIT PLAN

As prescribed by the Central Provident Fund Board of Singapore ("CPF"), the Group's employees employed in Singapore who are Singapore Citizens or Permanent Residents are required to join the CPF scheme. For the year ended 31 December 2018, the Group contributed up to 17% of the eligible employees' salaries to the CPF scheme, with each employee's qualifying capped at S$6,000 per month.

The total costs charged to profit and loss, amounted to S$376,000 (2017: S$409,000) for the year ended 31 December 2018, represent contributions paid to the retirement benefits scheme by the Group.

As at 31 December 2018, the CPF contribution payables amounted to S$51,000 (2017: S$85,000) were paid subsequent to the end of the reporting period.

37. RELATED PARTY TRANSACTIONS

Apart from disclosure elsewhere in the consolidated financial statements, the Group entered into the following transactions with related parties:

Name	Relationship	Nature of transaction	Year ended 31 December 2018 S$'000	2017 S$'000
Hilandas Property & Facilities Management Pte. Ltd.	Wholly-owned by the spouse of Mr. Ho	Sub-contracting services paid	**–**	20
Hon Builder Pte. Ltd.	Wholly-owned by Mr. Yap Meng Keong, brother-in-law of Mr. Ho	Sub-contracting services paid	**–**	86
		Rental income	**35**	–
Wee Jo Enterprise Pte. Ltd.	Owned as to 48% by Mr. Ho Nam Joo and 52% by Ms. Ho Chong Min, the brother and Niece of Mr. Ho, respectively	Sub-contracting services paid	**52**	77
City Garden Pte. Ltd.	Owned as to 71.19% by Mr. Lim Beng Keong the cousin of Mr. Lim	Sub-contracting services paid	**286**	258

37. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

The directors of the Company were considered to be the key management personnel of the Company. The remuneration of the directors of the Company is set out in Note 13 to the financial statements.

38. CAPITAL MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as going concern while maximising the return to shareholders through the optimisation debt and equity balance. The Group's overall strategy remained unchanged from prior year.

The capital structure of the Group consists of net debt, which includes obligations under finance leases and borrowings as set out in Notes 27 and 28 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and retained earnings.

The management reviews the capital structure from time to time. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Management regularly monitors compliance with the financial covenants imposed by financial institutions for the facilities granted to the Group. As at the end of the reporting period, the Group is in compliance with externally imposed financial covenants requirements.

39. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December	
	2018	2017
	S$'000	S$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**–**	16,057
Amortised cost	**17,548**	–
Designated as at FVTPL	**328**	–
Financial liabilities		
Amortised cost	**55,637**	52,768
Financial liabilities associated with assets held-for-sale		
Amortised cost	**–**	674

39. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, payments for life insurance policy, amounts due from shareholders, pledged bank deposits, bank balances and cash, trade and other payables, bills payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the group's exposure to these financial risks or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis indicated below.

(i) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the bank balances, and variable rate of interest incurred on overdraft and borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed-rate finance leases. It is the Group's policy to maintain an appropriate level between its fixed-rate and variable-rate borrowings so as to minimise the fair value and cash flow interest rate risk.

The Group's floating rate borrowings are also exposed to cash flow interest rate risk.

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate risk exposure and will consider interest rate hedging should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to variable interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of reporting period were outstanding for the whole year. The following sensitivity analysis represents management's assessment of the reasonably possible change in interest rates.

If interest rates of the variable-rate borrowings had been 50 basis points higher/lower than the SIBOR and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by approximately S$22,000 (2017: S$26,000).

Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(i) ***Market risk*** *(Continued)*

Foreign currency risk

At the end of reporting period, the Group is exposed to foreign currency movements in the United States dollar ("US$") and Hong Kong dollar ("HK$"). At the end of reporting period, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the functional currency of each group entities are as follows:

	Assets		**Liabilities**	
	As at 31 December		**As at 31 December**	
	2018	2017	**2018**	2017
	S$'000	S$'000	**S$'000**	S$'000
US$	**342**	328	**12**	–
HK$	**2,710**	–	**102**	–

Foreign currency sensitively analysis

A 5% (2017: 5%) strengthening/weakening of the US$ and HK$ against the respective functional currencies of the group entities as at 31 December 2018 would have increased (decreased) equity and profit before tax by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. This analysis has not taken into account the associated tax effects and assumes that all other variables, in particular foreign currency rates, remain constant.

	Increase in pre-tax profit	
	Year ended 31 December	
	2018	2017
	S$'000	S$'000
US$	**17**	16
HK$	**130**	–

For a 5% (2017: 5%) weakening of US$ and HK$ against the above relevant currencies at the end of the reporting period, there would be a comparable opposite effect on the Group's pre-tax profit.

The Group monitors foreign currency exposure and will consider hedging significant currency exposure should the need arise.

39. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(ii) Credit risk

Before adoption of IFRS 9 as at 1 January 2018

At the end of reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's concentration of credit risk by geographical locations is mainly in Singapore, which accounted for 100% of the total financial assets as at 31 December 2017.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts and sufficient allowance on doubtful debts are provide for on timely manner. Before accepting any new customer, the Group carries out research on the credit risk of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed when necessary.

In addition, the Group reviews the recoverable amount of each individual trade debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

Approximately 87% respectively of total trade receivables outstanding at 31 December 2017 were due from top 5 customers which exposed the Group to concentration of credit risk.

Those five largest customers are with good creditworthiness based on historical settlement record. In order to minimise the concentration of credit risk, the management has delegated staff responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts. The management also performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant and adequate impairment losses are made for irrecoverable amount. In this regard, the management considers that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on bank deposits and balances placed in 3 banks in which the counterparties are financially sound and on trade receivables from top 5 customers, the Group has no other significant concentration of credit risk on other receivables, with exposure spread over a number of counterparties.

39. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(ii) Credit risk *(Continued)*

After adoption of IFRS 9 as at 1 January 2018

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group is exposed to concentration of credit risk at 31 December 2018 on trade receivables from the Group's top five major customers accounted for 19% of the Group's total trade receivables. The major customers of the Group are certain reputable organisations.

In order to minimise the credit risk, the directors of the Company has delegated its finance team to develop and maintain the Group's credit risk gradings to categorise exposures according to their degree of risk of default. The finance team uses publicly available financial information and the Group's own historical repayment records to rate its major customers and debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL — not credit-impaired
In default	There is evidence indicating the asset is credit impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

39. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(ii) Credit risk *(Continued)*

After adoption of IFRS 9 as at 1 January 2018 (Continued)

The tables below detail the credit quality of the Group's financial assets and contract assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades.

	Note	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
2018						
Trade receivables	19	(a)	Lifetime ECL (simplified approach)	10,735	(100)	10,635
Deposits, prepayments and other receivables	20	(a)	Lifetime ECL (simplified approach)	3,231	–	3,231
Contract assets	21	(a)	Lifetime ECL (simplified approach)	42,154	–	42,154
					(100)	

39. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(ii) Credit risk *(Continued)*

After adoption of IFRS 9 as at 1 January 2018 (Continued)

(a) For trade receivables, deposits and other receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Notes 19, 20 and 21 include further details on the loss allowance for these assets respectively.

Other than concentration of credit risk on bank deposits and balances placed in 6 banks in which the counterparties are financially sound and on trade receivables from top 5 customers, the Group has no other significant concentration of credit risk on other receivables, with exposure spread over a number of counterparties.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial obligations as and when they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensure compliance with loan covenants.

Non-derivative financial assets

At the end of reporting period, all financial assets of the Group are repayable on demand or due within their operating cycle, and are non-interest bearing except for bank balances and pledged fixed deposits as set out in Note 23 to the financial statements.

39. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(iii) Liquidity risk (Continued)

Non-derivative financial liabilities

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the relevant market rates as at the reporting date) of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows, where applicable.

	Weighted average effective interest rate %	Repayable on demand or less than 1 year S$'000	1 year to 5 years S$'000	Over 5 years S$'000	Total undiscounted cash flows S$'000	Carrying amount S$'000
As at 31 December 2018						
Non-interest bearing instrument						
Trade and other payables	**–**	**35,953**	**–**	**–**	**35,953**	**35,953**
Interest bearing instruments						
Bills payables	**3.7**	**12,871**	**–**	**–**	**12,871**	**12,781**
Obligations under finance leases	**2.3**	**397**	**392**	**–**	**789**	**744**
Borrowings	**2.7**	**1,275**	**1,693**	**4,375**	**7,343**	**6,159**
		50,496	**2,085**	**4,375**	**56,956**	**55,637**
As at 31 December 2017						
Non-interest bearing instrument						
Trade and other payables	–	29,693	–	–	29,693	29,693
Interest bearing instruments						
Bills payables	3.5	14,541	–	–	14,541	14,395
Obligations under finance leases	3.0	701	868	19	1,588	1,484
Borrowings	2.8	1,849	1,786	4,691	8,326	7,196
		46,784	2,654	4,710	54,148	52,768

39. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(iii) Liquidity risk (Continued)

Non-derivative financial liabilities (Continued)

Financial liabilities associated with assets classified as held for sale:

	Weighted average effective interest rate %	Repayable on demand or less than 1 year S$'000	1 year to 5 years S$'000	Over 5 years S$'000	Total undiscounted cash flows S$'000	Carrying amount S$'000
As at 31 December 2017						
Interest bearing instrument						
Borrowings	2.2	53	210	530	793	674

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of reporting period.

(c) Fair value measurements of financial instruments

Fair value measurement of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	**Fair value as at 31 December 2018 S$'000**	2017 S$'000	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
Unlisted life insurance policy	**328**	N/A	Level 3	Quoted price for insurance policy

39. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments *(Continued)*

Fair value measurement of the Group's financial assets that are measured at fair value on a recurring basis *(Continued)*

The fair value of the life insurance policy purchased for a key management personnel of the Group are determined based on the cash surrender value of the life insurance policy which is not an observable input. Management estimates the fair value based on the latest information of the life insurance policy provided by the insurance company.

Based on historical change in the cash surrender value of the insurance policy, there is an average increase in cash surrender value of approximately 1% per annum during the reporting period. Applying this percentage of increase/decrease in the quoted price, the Group's profit for year ended 31 December 2018 would decrease and increase by approximately S$3,000 (2017: S$3,000).

There were no changes in Level 3 instruments during the year ended 31 December 2018.

Fair value measurement of the Group's financial assets that are not measured at fair value on a recurring basis

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing model based on discounted cash flow analysis.

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of reporting period.

40. DISPOSAL OF SUBSIDIARIES

Advanced Engineering Group (International) Pte. Ltd. ("Advanced Engineering")

As referred to in Note 12, on 31 December 2017, the Company and the non-controlling shareholder of Advanced Engineering entered into a sale and purchase agreement in relation to the disposal of the entire issued capital of Advanced Engineering to Mr. Tan at a consideration of S$5,000. The disposal was completed on 31 December 2017.

The following are the assets and liabilities in respect of Advanced Engineering disposed of on the date of completion:

	S$'000
Investment property (Note 17)	925
Property, plant and equipment	1,427
Inventories	77
Trade and other receivables	1,295
Cash and cash equivalents	3
Obligations under financial lease	(67)
Borrowings	(942)
Trade and other payables	(1,238)
Amount due to Hon Industries	(1,816)
Net liabilities disposal of	(336)
Non-controlling interest derecognised	141
Cash consideration	(5)
Gain on disposal (Note 12)	(200)
Net cash inflow arising on disposal	
Cash consideration	5
Less: bank balances and cash disposed	(3)
	2

The impact of Advanced Engineering's results and cash flows in the prior year is set out in Note 12.

40. DISPOSAL OF SUBSIDIARIES *(Continued)*

GK Development Pte. Ltd. ("GK Development")

On 20 February 2018, Hon Industries and Mr. Wong Ka Hui Roy ("Mr. Roy Wong"), an independent third party, entered into a sale and purchase agreement, pursuant to which Hon Industries transferred the entirety of its 100% interest in the issued share capital of GK Development to Mr. Roy Wong at a consideration of S$124,000. The disposal was completed on 17 May 2018.

The following are the asset and liability in respect of GK Development disposed of on the date of completion:

	S$'000
Cash and cash equivalent	125
Trade and other payables	(1)
Net asset derecognised	124
Cash consideration received	(124)
Gain on disposal	–
Net cash outflow arising on disposal	
Cash consideration	124
Less: bank balances and cash disposed	(125)
	(1)

41. NON-CASH TRANSACTIONS

During the year ended 31 December 2017, additional property, plant and equipment amounting of S$461,000 was acquired under hire purchase arrangements.

During the year ended 31 December 2017, an interim dividend in aggregate amount of S$3,499,000 has been declared by Hon Industries and is settled through the amounts due from shareholders.

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries directly and indirectly held by the Company as at 31 December 2018 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest/voting power held 2018 %	2017 %	Principal activities
Directly held:					
Energy Turbo	British Virgin Island	US$1	**100**	–	Investment holding
Indirectly held:					
Hon Industries	Singapore	S$6,500,000	**100**	100	Building construction, engineer and construction project management services
GK Development	Singapore	S$1,000,000	**–**	100	Inactive

All subsidiaries now comprising the Group are limited liability companies and have adopted 31 December as their financial year end date.

None of the subsidiaries had issued debt securities at the end of the year.

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bills payables S$'000	Borrowings (exclude bank overdraft) S$'000	Obligations under finance leases S$'000	Total S$'000
At 1 January 2017	9,182	8,679	1,956	19,817
Financing cash flows	4,968	(909)	(947)	3,112
Non-cash changes:				
Disposal of a subsidiary	–	(942)	(67)	(1,009)
New finance lease	–	–	461	461
Finance cost recognised (Note 9)	245	191	81	517
At 31 December 2017	14,395	7,019	1,484	22,898
Financing cash flows	(2,005)	(1,839)	(792)	(4,636)
Non-cash changes:				
Finance cost recognised (Note 9)	391	173	52	616
At 31 December 2018	**12,781**	**5,353**	**744**	**18,878**

44. PERFORMANCE BONDS

Certain customers of construction contracts undertaken by the Group require the Group to issue guarantees for the performance of contract works in the form of performance bonds and released when the construction contracts are practically completed. The performance bonds are secured by personal guarantees given by Mr. Ho and Mr. Lim and corporate guarantees given by Hon Industries.

At 31 December 2018, the Group had outstanding performance bonds amounting to S$14,601,000 (2017: S$15,373,000).

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	As at 31 December 2018 S$000
ASSETS AND LIABILITIES	
Non-current asset	
Investment in a subsidiary	–
Current asset	
Prepayments	**62**
Amount due from Hon Industries	**2,009**
Bank balances and cash	**2,708**
	4,779
Current Liabilities	
Other payables	**588**
Net current assets	**4,191**
Total assets less current liabilities, representing net assets	**4,191**
Equity	
Capital and reserves	
Share capital	**846**
Share premium	**7,722**
Accumulated losses	**(4,377)**
Equity attributable to owners of the Company	**4,191**

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

A summary of the Company's reserves is as follows:

	Share capital S$000	Share premium S$000	Accumulated losses S$000	Total S$000
At 8 February 2018 (date of incorporation)	–	–	–	–
Total comprehensive expense for the year				
Loss for the year	–	–	(4,377)	(4,377)
Transactions with owner, recognised directly in equity:				
Issue of shares under the capitalisation issue	634	(634)	–	–
Issue of shares under the Share Offer	212	10,360	–	10,572
Share issue expenses	–	(2,004)	–	(2,004)
Transaction with owners, recognised directly in equity	846	7,722	–	8,568
At 31 December 2018	846	7,722	(4,377)	4,191

46. CAPITAL COMMITMENTS

As of 31 December 2018, the Group has capital commitments in respect of the purchase of property, plant and equipment which have been contracted but not provided for amounting to S$279,000 (2017: S$Nil).

THREE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years, as extracted from the published financial statements, is set out as below:

RESULTS	**Year ended 31 December 2018 S$'000**	Year ended 31 December 2017 S$'000	Year ended 31 December 2016 S$'000
Revenue	**94,410**	100,841	54,942
Profit before income tax	**2,411**	5,990	1,412
Income tax expenses	**1,226**	1,197	155
Profit attributable to the owners of the Company for the year	**1,185**	5,044	1,243
Total comprehensive income attributable to the owners of the Company for the year	**1,555**	5,758	1,575
ASSETS AND LIABILITIES			
Total assets	**78,079**	65,569	53,647
Total liabilities	**57,036**	54,649	44,909
Net assets	**21,043**	10,920	8,738
Equity attributable to owners of the Company for the year	**21,043**	10,920	8,661