HAFARY HOLDINGS LIMITED
(Company Registration No: 200918637C)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES RAISED BY SGX ON THE COMPANY'S UNAUDITED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE SECOND HALF-YEAR AND FULL YEAR ENDED 31 DECEMBER 2020

The Board of Directors (the "**Board**") of Hafary Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to provide the following responses to the queries received from the Singapore Exchange Regulation ("**SGX Regco**") via email on 29 March 2021, in connection with the Company's unaudited financial statements and dividend announcement for the second half-year ("2H") and full year ("**FY2020**") ended 31 December 2020 released via SGXNet on 22 February 2021.

<u>Query (a)</u>

It is noted that the Group's Other Financial Liabilities, Current decreased from S$ 55,311,000 as at 31 December 2019 to S$ 34,597,000 as at 31 December 2020. It is stated on page 17, "The decrease in other financial liabilities was mainly due to decrease in trust receipts and bill payables by S$ 5.5 million and repayment of bank loans by S$ 20.2 million. This was partially offset by the short term loan drawdown amounting to S$ 5.0 million."

i. Please disclose the nature of the Other Financial Liabilities, Current account line item.

ii. Please disclose a breakdown of the Other Financial Liabilities, Current amounting to S$ 34,597,000 as at 31 December 2020.

Response:

i. The Other Financial Liabilities, Current comprises (a) bank loans, in total of S$ 24,266,000, which are repayable within one year from the financial year ended 31 December 2020 ("**FY2020**"); and (b) trust receipts and bills payable in total of S$ 10,331,000, which are repayable within 150 to 180 days guaranteed by the Company.

ii. Please refer the table below for the breakdown of the Other Financial Liabilities, Current :-

	2020
	S$'000
Trust receipts and bills payable	10,331
Bank loans:	
– With floating interest rates	23,814
– With fixed interest rates	452
Total other financial liabilities, current	34,597

For more details about the nature and breakdown of the Bank loans, please refer to page 5 of the unaudited financial statement and dividend announcements for the 2H and FY2020 released via SGXNet on 22 February 2021 and pages 115 to 118 of the Company's Annual Report 2020 released via SGXNet on 29 March 2021.

Query (b)

It is noted that the Group's Other Financial Liabilities, Non-current increased from S$ 77,673,000 as at 31 December 2019 to S$ 82,256,000 as at 31 December 2020.

i. Please disclose the nature of the Other Financial Liabilities, Non-current account line item.

ii. Please disclose a breakdown of the Other Financial Liabilities, Non-current amounting to S$ 82,256,000 as at 31 December 2020.

Response:

i. The Other Financial Liabilities, Non-Current comprises solely of bank loans, in total of S$ 82,256,000, which are repayable after one year from the financial year ended 31 December 2020.

ii. Please refer the below table for the breakdown of the Other Financial Liabilities, Non-Current.

	2020
	S$'000
Bank loans (secured):	
– With floating interest rates	77,208
– With fixed interest rates	5,048
Total other financial liabilities, non-current	82,256

For more details about the nature and breakdown of the Bank loans, please refer to page 5 of the unaudited financial statement and dividend announcements for the 2H and FY2020 released via SGXNet on 22 February 2021 and pages 115 to 118 of the Company's Annual Report 2020 released via SGXNet on 29 March 2021.

Query (c)

It is noted that the Group's Other Liabilities increased from S$ 3,189,000 as at 31 December 2019 to S$ 5,359,000 as at 31 December 2020. It is stated on page 17:- "The increase in other liabilities was mainly due to increase in advance payment received from customers."

i. Please disclose the nature of the Other Liabilities account line item.

ii. Please disclose a breakdown of the Other Liabilities amounting to S$ 5,359,000 as at 31 December 2020.

Response:

i. The Group's Other Liabilities comprises:-

(a) advance payment received from customers of S$ 4,607,000. This advance payment pertains to advance deposits paid by the Group's customers to secure purchase orders;

(b) deferred grant income of S$ 735,000. This relates to the Job Support Scheme ("**JSS**") grant income receivable from the Singapore Government as at 31 December 2020. The deferred grant income was recognised when the grant conditions are satisfied. The deferred grant income is released over the periods in which the related costs of the JSS grant is intended to compensate; and

(c) deferred rental income of S$ 17,000.

ii. Please refer the table below for the breakdown of the Other Liabilities:-

	2020
	S$'000
Advance payment from customers	4,607
Deferred grant income	735
Deferred rental income	17
Total other liabilities	5,359

Query (d)

Given the Group's current liabilities of S$ 59,122,000 as at 31 December 2020, and cash and cash equivalents of S$ 5,211,000 as at 31 December 2020, please disclose the Board's assessment:-

i. Whether the Group's current assets are adequate to meet its short-term liabilities of S$ 59,122,000 as at 31 December 2020, including its bases of assessment; and

ii. How the Group and Company intends to fulfil its significant payment obligations in the next 12 months. Where the Group and Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Response:

i. The Group's total current assets of S$ 91,490,00 are adequate to meet the Group's short term liabilities S$ 59,122,000. After netting off the short-term liabilities, the Group's net current assets stand at S$ 32,368,000.

ii. The Group's significant payment obligations in the next 12 months are (a) trade and other payables of S$ 16,275,000; (b) short term liabilities of S$ 15,197,000; and (c) income tax payable of S$ 1,285,000.

In addition, the Group's short term liabilities also include (a) S$ 19,400,000 of interest bearing loans and borrowings which are revolving bank facilities and mainly secured by the Group's assets. These revolving bank facilities are not due and will be rolled over for another interest period in year 2021; and (b) S$ 5,359,000 of other liabilities, which comprised advance payment from customers of S$ 4,607,000 and deferred grant income of S$ 735,000. The advance payment from customers will be fulfilled upon the delivery of goods to customers.

The Group and Company intends to fulfill its payment obligations in the next 12 months through (a) its existing cash balance; (b) external bank facilities; and (c) cash flow from operations.

Based on Group's operating history, the Group has not defaulted on its repayment obligations related to its bank borrowings and has not been in breach of any of its banking covenants.

Query (e)

It is noted that the Group's impairment losses for 2H2020 amounted to S$ 3,457,000 and for FY2020 amounted to S$ 4,404,000.

It is stated on page 14 :- "The impairment losses mainly comprised of allowance for impairment of inventories and allowance of trade receivables. The management assess the collectability of trade receivables regularly, considering various factors such as financial status of the Group's customers and age of trade debts. Impairment on specific trade receivables would be made if the chance of recovery is very low. Besides that, expected credit losses ("ECL") model is also being applied to determine the loss allowance for trade receivables based on historical observed default rates adjusted for forward-looking estimates in accordance with SFRS(I) 9.

For 6 months ended, the impairment losses increased by S$ 2.4 million or 228.3% from S$ 1.1 million during 2H2019 to S$ 3.5 million during 2H2020. For 12 months ended, the impairment losses increased by S$ 2.9 million or 196.6% from S$ 1.5 million during FY2019 to S$ 4.4 million during FY2020. The increase mainly due to the increase in allowance for impairment of inventories.

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

i. Please disclose how the amount of impairment for FY2020 amounting to S$ 4,404,000 was determined;

ii. Please disclose the reason(s) for the impairment loss amounting to S$ 4,404,000 for FY2020; and

iii. Please disclose the Board's confirmation as to whether it is satisfied with the reasonableness of the methodologies used to determine the amount of impairment amounting to S$ 4,404,000 for FY2020 and the bases for its views.

Response:

Please refer the table below for the nature and breakdown of the impairment losses.

	2020 S$'000
Allowance for impairment of inventories	4,068
Allowance for impairment of trade receivables:	
– Individually impaired	317
– Collectively impaired	28
Bad debts recovered – trade receivables	(20)
Bad debts written-off – other receivables	11
Total impairment losses	4,404

The impairment losses mainly comprise (a) the impairment of inventories of S$ 4,068,000 during FY2020, amounting to approximately 92% of the total impairment losses; and (b) the impairment of trade receivables of S$ 345,000, amounting to approximately 8% of the impairment losses.

The assessment of the allowance for impairment of inventories requires a degree of estimation and judgement. The level of the loss allowance is assessed by taking into account the recent sales experience, the ageing of inventories, other factors that affect inventory obsolescence and subsequent events (including the impact of the COVID-19 pandemic). Of these inventories, substantial impairment allowance has been made for slow-moving inventories. The impairment allowance for slow-moving inventories is based on the age of these inventories, the prevailing market demand of the inventory category and the deterioration of the products based on past experience.

In respect of the impairment of trade receivables, the management assesses the collectability of trade receivables regularly, considering various factors such as the financial status of the Group's customers and the aging of trade debts. Impairment on specific trade receivables would be made if the chance of recovery is very low. Other than that, the expected credit losses ("**ECL**") model is also applied to determine the loss allowance for trade receivables based on historically observed default rates adjusted for forward-looking estimates. The assessment of the allowance for ECL requires a degree of estimation and judgement. It is based on the lifetime ECL for trade receivables. In measuring the ECL, the management considers all reasonable and supportable information such as the reporting entity's past experience at collecting receipts, the increase in the number of delayed receipts in the portfolio that passed the average credit period, and forward looking information such as forecasts of future economic conditions (including the impact of the COVID-19 pandemic).

The Board has reviewed the methodologies used by the management of the Group to assess the value of the allowance for the impairment for inventories and the impairment of trade receivables, and is of the opinion that the methodologies used to determine the value of the impairment are reasonable.

The Board noted that the external auditor has carried out a review of the methodologies used by management in determining the value of the impairment, and found that the methodologies are reasonable. The external auditor has also assessed the management's judgement and assumptions applied to comply with the group's inventory allowance policy by analysing the historical data trend as well as performing analytical procedures on the inventory aging profile.

Query (f)

Please clarify if the Group has assessed the value of its property(ies) and investment property(ies) for FY2020, and its basis of assessment. Please explain how the Board has addressed its mind to the carrying value of its properties and decided if any material change is required, in view of the COVID-19 situation.

Given the significant change in the economic, operating and business conditions caused by the COVID-19 pandemic, please state whether and how the Group would have disclosed all material information relating to the value of its investment property(ies) to enable investors to make informed investment decisions.

Response:

The Group owns properties which it uses for its own operations and which it rents out to third party tenants. In addition, the Group owns an investment property which earns rental income. The Group had adopted the cost model in ascertaining the valuation of its properties (including the investment property).

The Group had, in FY2020, appointed Independent Valuers to conduct a fair value assessment on all of the Group's properties, save for the Group's investment property. Each of the Independent Valuers appointed by the Group have at least 5 years' of relevant practical experience in valuing properties in a similar industry and area as the properties to be valued and is a member of the Singapore Institute of Surveyors and Valuers with no connection to the Group or an adverse track record.

The market valuation of each of the properties (save for the Group's investment property) as determined by the Independent Valuers was higher than their respective carrying amounts as at 31 December 2020. In addition, Independent Valuers appointed by the Group has issued a letter to the Group stating that it is of the opinion that there is no material change to the market value of the investment property as at 31 December 2020, taking into account the property market conditions prevailing as at 31 December 2020.

In respect of the Group's investment property, this property continues to be occupied by an external tenant who has signed a tenancy agreement with the Group and contributes consistent rental income to the Group.

As such, the management is of the opinion that the Group's properties (including the Group's investment property) are unlikely to be impaired. The Board notes that the Independent Valuers appointed by the Group have each carried out their evaluation in accordance with SFRS(I) 13 Fair Value Measurement and SFRS(I) 1-40 Investment Property and have found that no material change to the carrying value of properties is required.

The rental income generated from the Group's properties (including the Groups' investment property) amounted to S$ 3,339,000 and the Group consistently earns rental income from its tenants who have each signed tenancy agreements for terms of between 1 to 3 years.

For more information relating to value of investment properties, please refer to page 101 of the Company's Annual Report 2020.

By Order of the Board

Low Kok Ann
Executive Director and CEO
31 March 2021