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

RESPONSE TO SGX QUERIES REGARDING FULL YEAR RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 Securities Trading Limited via email on 25 February 2020 in connection with the Company's full year financial statements and related announcement for the financial year ended 31 December 2019 released via SGXNet on 21 February 2020:-

Query (a):

It is disclosed on page 2 of the announced financial results:-

Line Item	Group			Group		
	4Q 2019 (3 months) S$'000	4Q 2018 (3 months) S$'000	Increase/ (Decrease) %	2019 (12 months) S$'000	2018 (12 months) S$'000	Increase/ (Decrease) %
Changes in inventories of goods held for resale	67	3,309	(98.0)	(2,002)	7,418	N.M.
Purchases and related costs	(16,403)	(21,936)	(25.2)	(57,416)	(76,144)	(24.6)

The Company also stated on page 14 of the announced financial results:-

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

For 3 months ended, cost of sales decreased by S$2.3 million or 12.3% from S$18.6 million during 4Q2018 to S$16.3 million during 4Q2019. For FY2019, cost of sales decreased by S$9.3 million or 13.5% from S$68.7 million during FY2018 to S$59.4 million during FY2019."

Please explain the reason(s) for the decrease in cost of sales.

Response:

The decrease in cost of sales between 4Q2019 and 4Q2018 and FY2019 and FY2018 is mainly attributable to the Group's decrease in revenue from the Group's general and project segments. The decrease in revenue led to a corresponding decrease in the cost of sales.

As disclosed on page 13 of the announced financial results, the revenue from the Group's general segment decreased by S$0.7 million or 3.6% from S$19.6 million in 4Q2018 to S$18.9 million in 4Q2019. For FY2019, revenue from the Group's general segment decreased by S$9.3 million or 13.1% from S$70.9 million in FY2018 to S$61.6 million in FY2019.

The revenue from the Group's project segment decreased by S$1.4 million or 11.9% from S$11.8 million in 4Q2018 to S$10.4 million in 4Q2019. For FY2019, revenue from project segment decreased by S$2.6 million or 5.6% from S$46.1 million in FY2018 to S$43.5 million in FY2019.

Query (b):

It is disclosed on page 2 of the announced financial results:-

Line Item	Group			Group		
	4Q 2019	4Q 2018	Increase/ (Decrease) %	2019	2018	Increase/ (Decrease) %
	(3 months) S$'000	(3 months) S$'000		(12 months) S$'000	(12 months) S$'000	
Impairment Losses	(605)	(972)	(37.8)	(1,485)	(1,907)	(22.1)

The Company also stated on page 14 of the announced financial results:-

"*The impairment losses mainly comprised of allowance for impairment of inventories and allowance of trade receivables.*

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

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

For 3 months ended, the impairment losses decreased by S$0.4 million or 37.8% from S$1.0 million during 4Q2018 to S$0.6 million during 4Q2019. For 12 months ended, the impairment losses decreased by $0.4 million or 22.1% from S$1.9 million during FY2018 to S$1.5 million during FY2019."

In relation to the impairment losses, please disclose the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment.

In relation to the trade receivables for which impairment has been provided, please disclose:

a) The Company's plans to recover the trade receivables;
b) How long are the debts outstanding and when were the sales reported;
c) What were the actions taken to recover the trade receivables; and
d) The Board's assessment of the recoverability of the remaining trade receivables.

Response:

The Board has reviewed the methodologies used by the management of the Group to assess the value of 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 also 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 impairment loss on trade receivable recognised by the Group in 2019 profit or loss was S$458,000 (2018: S$459,000).

The cumulative impairment losses recorded by the Group as at 31 December 2019 was S$1,595,000 (2018: S$1,392,000).

In relation to trade receivables for which impairment has been provided:

(i) Management have been following up with past-due customers for collections. Where practical, management will negotiate instalment payment plans with these customers. Management will also commence legal proceedings against certain customers to recover the trade receivables.

(ii) The Group typically grants a credit period of between 30 to 90 days to its customers. The outstanding debts impaired were in relation to receivables that were overdue by 180 days or more. A majority of the impaired trade receivables were reported as sales during FY2016 to FY2018.

(iii) As in (i) above.

(iv) In assessing the recoverability of the Group's remaining trade receivables, management considers various qualitative and quantitative factors such as (i) the financial condition of each customer; (ii) payment history; and (iii) the age of trade debts. The management regularly monitors the above factors and provides for allowance for impairment of trade receivables, if necessary. Based on the above factors, the Board is of the view that no further allowance for impairment of trade receivables is required for the remaining trade receivables as at 31 December 2019, which would be recoverable.

<u>Query (c):</u>

It is disclosed on page 4 of the announced financial results:-

	Group		Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	S$'000	S$'000	S$'000	S$'000
Other assets, Current	5,470	6,668	7	9

The Company also stated on page 16 of the announced financial results:-

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

Please (I) provide a breakdown of the "Other assets, Current" line item; and (II) explain the reason(s) for its decrease.

Response:

Please refer below table for the breakdown of the “Other assets, Current” at Group level:

	31 December 2019 S$’000	31 December 2018 S$’000
Advance payments to suppliers	4,673	5,392
Contract assets	462	894
Prepayments	149	84
Deposits to secure services	141	219
Lease incentive	45	79
Total	5,470	6,668

The main contributor to the decrease in "Other assets, Current" by S$1,198,000 are (i) the decrease in advance payment to suppliers by S$719,000 mainly due to lower committed purchases of goods as at the year end; (ii) the decrease in contract assets by S$432,000 due to lesser works completed but not billed as at the year end.

Query (d)

It is disclosed on page 4 of the announced financial results:-

	Group		Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	S$’000	S$’000	S$’000	S$’000
Other Receivables, Non-current	137	992	-	-

The Company also stated on page 16 of the announced financial results:-

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

Please elaborate on the reclassification.

Response:

As previously disclosed at page 108 of the Group’s 2018 annual report, the Group entered into a shareholder withdrawal agreement with the shareholder of Foshan Griffiths (the "**Investee Company**") to withdraw from the Group's investment in the Investee Company. The full sum invested by the Group into the Investee Company will be repaid within the next 2 years. In view of the above arrangements, the investment in Investee Company has been reclassified from unquoted investment to other receivables at amortised cost as at 31 December 2018.

By Order of the Board

Low Kok Ann
Executive Director and CEO
27 February 2020