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 2016

The Board of Directors 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 28 February 2017 in connection with the Company's full year financial statements and related announcement for the financial year ended 31 December 2016 released via SGXNet on 17 February 2017:-

<u>Query 1:</u>

Under the section of "Other Gains" in Paragraph 8(a), the Company disclosed that "other gains comprised mainly of fair value gain on *derivative financial instruments* of S$0.2 million".

Please clarify on the following:-

i. what are these *derivative financial instruments*; and
ii. what is the nature of these transactions involving the use of *derivative financial instruments*.

Response:

i. Derivative financial instruments refer to foreign currency forward contracts. These are binding contracts in the foreign exchange market that locks in the exchange rate for the purchase or sale of a currency on a future date.

ii. The majority of the Group's purchases of inventories are denominated in United States Dollars ("USD") and Euro ("EUR"). The Group sells its inventories in Singapore Dollars. Therefore, the Group is exposed to foreign currency risk. To mitigate its exposure to fluctuations in USD and EUR and in order to secure our margins, the Group entered into foreign currency forward contracts with various banks in Singapore to purchase USD and EUR from time to time and use these foreign currencies to pay for our purchases. A gain of S$0.2 million for FY2016 is due to the foreign currency forward contract rates being more favorable to the Group than forward market rates as at 31 December 2016.

    The Group has foreign currency hedging policy in place to ensure that only known foreign currency exposures are hedged and derivative contracts are not used for speculative purposes.

<u>Query 2:</u>

Under the section of "Impairment Losses" in Paragraph 8(a), the Company disclosed that "impairment losses mainly comprised of allowance for impairment of inventories and trade receivables".

Please clarify on the following:-

i. whether the Company continues to trade with the trade receivables on which the Company is providing impairment losses; and
ii. whether the board is satisfied with the reasonableness of the methodology used to determine the impairment losses.

Response:

i. The Group does not trade with those customers whose trade receivables are provided for impairment losses by the Group.

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

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

    The Board is satisfied with the reasonableness of the methodologies used to determine the impairment losses.

By Order of the Board

Low Kok Ann
Executive Director and CEO
2 March 2017