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

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST") ON THE COMPANY'S INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2022 ("INTERIM FS 1H2022")

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 raised by the SGX-ST on 19 September 2022 in connection with the Company's Interim FS 1H2022 released via SGXNet on 10 August 2022 (the "**Interim FS 1H2022**"):-

Query 1

Please provide an explanation for the increase of $8,477,000 in current inventories of the Group from $46,249,000 as at 31 December 2021 to $54,726,000 as at 30 June 2022.

Response:

The increase in current inventories was driven by the need to fulfill potential pent up demand from both the general and project business segments as well as the sales volume increased during the period ended 30 June 2022.

Query 2

In respect of the Group's current trade and other receivables amounting to $37,729,000, please disclose:-

(i) the Company's plans to recover the trade and other receivables;
(ii) whether they are major customer(s) and whether the Company continues to transact with these customer(s);
(iii) how long are the debts outstanding and in which period the sales were reported;
(iv) what were the actions taken to recover the trade and other receivables;
(v) the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables; and
(vi) the Board's assessment of the recoverability of the remaining trade and other receivables.

Response:

(i) In respect of the Group's trade and other receivables, management reviews the trade receivables ledgers on a monthly basis and instructs the respective sales managers to follow up with the customers on collection matters. The Group will not process new orders from a customer who has long overdue debts and an outstanding balance that has exceeded the permissible credit limit until such overdue debt has been settled. Management may seek legal advice on possible recourse actions to recover the debts, if necessary.

In respect of the receivables due from our joint venture companies, Hafary Myanmar Investment Pte. Ltd. ("**Hafary Myanmar**") and Guangdong ITA Element Building Materials Co., Limited ("**Guangdong ITA**"), management monitors the financial performance to assess recoverability of these receivables on an ongoing basis and wishes to highlight the following:

(a) Hafary Myanmar recorded a profit for the financial period ended 30 June 2022.

(b) Guangdong ITA was profitable during the financial year ended 2021 and recorded a profit for the 2Q2022.

Management is of the opinion that additional allowance of impairment is not required as at 30 June 2022, and will continue to assess the recoverability of the trade and other receivables and may consider impairment if it identifies an indicator of impairment.

(ii) Generally, the Group is not exposed to significant concentration of credit risk with respect to trade receivables as its credit exposure is spread over a large number of counterparties and customers. For the SGX-ST's information, the top 10 major customers of the Group comprising largely reputable property developers with strong financial backgrounds and good payment track records, accounted for approximately 18.0% of the Group's total trade receivables of S$33,607,000. The Group continues to transact with these customers.

(iii) Please refer below for the ageing of trade receivables as at 30 June 2022:

	Group
	30 June 2022
	S$'000
Trade receivables:	
Not past due	23,291
Past due 0 – 30 days	3,651
Past due 31 – 60 days	1,915
Past due 61 – 90 days	1,334
Past due more than 90 days	5,476
Total	35,667

Credit terms are granted to customers based on their financial background and payment track record. The Group generally extend credit terms of 60 days to its trade receivable customers. Trade receivables due above 90 days, which amounted to S$5,476,000, mainly related to sales reported on or prior to January 2022. Of this outstanding balance, management has made specific allowance for impairment of S$1,828,000. Management does not foresee any difficulties with collection for the remainder of the Group's outstanding debt.

(iv) Management carried out the processes set out in paragraph (i) above.

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

In respect of the Group's previous financial year ended 31 December 2021, the Board noted that the external auditor had carried out a review of the methodologies used by Management in determining the value of the impairment, and found that the methodologies were reasonable.

The same set of methodologies were used by Management in the financial period ended 30 June 2022.

(vi) The Board has reviewed Management's assessment on the recoverability of the trade and other receivables under SFRS(I) 9 Financial Instruments and is of the opinion that the impairment loss allowance for expected credit losses (ECLs) in accordance with SFRS(I) 9 Financial Instruments has been adequately provided for as at 30 June 2022, and concurs with Management's view that there is no impairment indicators which would warrant further impairment on the remaining trade and other receivables as at 30 June 2022.

Query 3

It is noted that the increase in current loans and borrowings was mainly due to increase in trust receipts and bill payables by S$7.8 million and short term loans by S$4.1 million. Please disclose the reason(s) why the Group has to borrow such a significant amount and the use of proceeds from the loan.

Response:

The increase in trust receipts and bill payables by S$7.8 million was utilized by the Group to fund the purchase of inventories, in response to the pent-up demand from our general and project segment for the reasons as set out in our response to Query 1.

The increase in short term loans by S$4.1 was partially offset by the repayment of short-term loan amounting to S$1.0 million. The net proceeds from the short-term loan was for working capital purposes.

Query 4

Given the Group's significant liabilities of $224,823,000 and cash and cash equivalents of only $6,243,000, please disclose the Board's assessment on:-

(i) whether the Company's current assets are adequate to meet the Company's short-term liabilities, including its bases of assessment; and
(ii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the 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 $104,942,000 are adequate to meet the Group's short-term liabilities of $94,028,000. After netting off the short-term liabilities, the Group's net current assets stand at $10,914,000.

(ii) The Group's significant payment obligations in the next 12 months are as follows:

(a) short term borrowings of $66,023,000 out of which $27,500,000 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 2023;
(b) trade and other payables of $17,485,000; and

(c) income tax payable of $3,790,000.

In addition, the Group's short-term liabilities also include $4,758,000 of other liabilities, of which $4,731,000 comprised advance payments received from customers. This 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.

By Order of the Board

Low Kok Ann
Executive Director and CEO
21 September 2022