

HAFARY HOLDINGS LIMITED

(Company Registration No: 200918637C)

(Incorporated in the Republic of Singapore)

**RESPONSE TO QUERY FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED
("SGX-ST") ON THE COMPANY'S INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED
30 JUNE 2021 ("INTERIM FS 1H2021")**

The Board of Directors (the "**Board**") of Hafary Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to provide the following response to the query raised by SGX-ST on 19 August 2021 in connection with the Company's Interim FS 1H2021 released via SGXNet on 6 August 2021 (the "**Interim FS 1H2021**"):-

Query:

It is noted that the Group's trade and other receivables balance amounted to S\$35,365,000 as at 30 June 2021. Please disclose:

- (a) Details of the Group's underlying transactions of its other receivables and the terms of the transactions (including the contract sum) and payment terms of the underlying contracts;
- (b) The Company's plans to recover the trade and other receivables;
- (c) Whether they are major customer(s) and whether the Company continues to transact with these customer(s);
- (d) How long are the debts outstanding and in which period the sales were reported;
- (e) What were the actions taken to recover the trade and other receivables;
- (f) 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
- (g) The Board's assessment of the recoverability of the remaining trade and other receivables.

Response:

- (a) Please refer to the below for details of the underlying transactions of the Group's other receivables:

	Group	
	30 June 2021	Footnote
	\$'000	
Other receivables:		
Outside parties	120	(i)
Job Support Scheme grant receivables	513	(ii)
Joint ventures	3,747	(iii)
Associate	2,705	(iv)
Other related parties	21	(v)
Refundable deposits	299	(vi)
Total	7,405	

- (i) This relates to receivables due from external third parties, such as receivables due from the Company's insurers in connection with the Group's employee workmen compensation injury insurance policy.
- (ii) This relates to receivables under the Jobs Support Scheme ("JSS") by the Singapore Government which will be received by the Group after the end of the reporting period. The receivables were recognised when the grant conditions were satisfied.
- (iii) This mainly relates to (a) a loan granted by Hafary Building Materials Pte. Ltd. to Guangdong ITA Element Building Materials Co., Limited, the Group's joint venture company in China, amounting to S\$2,092,000 which bears interest at 4.0% per annum; and (b) an interest-free loan granted by Hafary Pte. Ltd. to Hafary Myanmar Investment Pte. Ltd., the Group's joint venture company in Myanmar, amounting to S\$ 1,421,000. The loans are unsecured.
- (iv) This relates to a loan by Hafary Pte. Ltd. to Viet Ceramics International Joint Stock Company, the Company's associate company in Vietnam, amounting to S\$2,705,000. The loan is unsecured and bears interest at 3.5% per annum.
- (v) This relates to receivables owing from MML Marketing Pte. Ltd. in connection with the secondment of employees.
- (vi) This relates to refundable deposits for the Group's leases, including its leases for its retail showroom and warehouses.
- (b) Management would review the trade receivables ledgers on a monthly basis and instructs the respective sales managers to follow up with the customers on collection matters. If long overdue debts remain unpaid and the outstanding balance exceeds the credit limit granted to the customers, the Group will not process the new orders from such customers 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 or associate companies, Hafary Myanmar Investment Pte. Ltd. ("**Hafary Myanmar**"), Viet Ceramics International Joint Stock Company ("**Viet Ceramics**") 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:-

- (a) Hafary Myanmar was profitable during the financial year ended 31 December 2020 but recorded a loss during for the six months period ended 30 June 2021. This was primarily as a result of the government mandated shutdowns in response to the outbreak of the Delta variant of COVID-19 in Myanmar.
- (b) Viet Ceramics has historically been profitable and has contributed dividend amounting to \$3.1 million to the Group from the financial year ended 2015 to 2020. Nevertheless, Viet Ceramics has likewise been impacted by COVID-19 recorded a loss for the six months ended 30 June 2021.
- (c) Guangdong ITA recorded a profit for the financial period ended 30 June 2021.

Management is of the opinion that there is no allowance of impairment is required, and will continue to monitor the COVID-19 situation in Vietnam and Myanmar and may consider impairment if the shutdown directive by the government persists.

- (c) The top 10 major customers of the Group accounted for approximately 18% of the Group's total trade receivables of \$27,960,000 as of 30 June 2021. These top 10 major customers are reputable property developers with strong financial background and good payment track records. The Group continues to transact with these customers. Outside of the top 10 major customers, the Group is not exposed to significant credit concentration risk with respect to trade receivables as its trade receivables are spread over a large number of counterparties and customers.
- (d) Please refer below for the ageing of trade receivables as at 30 June 2021:

	Group
	30 June 2021
	\$'000
Trade receivables:	
Not past due	17,550
Past due 0 – 30 days	3,489
Past due 31 – 60 days	1,376
Past due 61 – 90 days	833
Past due more than 90 days	6,394
Total	29,642

The Group grants different credit terms to each customer, depending on the customer's financial background and payment track record. The average credit terms generally granted to trade receivables customers is 60 days. Trade receivables which were due for more than 90 days as at 30 June 2021 amounted to \$6,394,000. This related to sales reported on or prior to January 2021. Of this outstanding balance, after the ECL exercise and review of impairment, Management has made allowance for impairment of \$1,682,000. The majority of the impaired trade receivables were

reported as sales during FY2016 to FY2018. For the remainder of the outstanding debts, Management does not foresee any difficulties with collection.

- (e) Management conducted the actions set out in paragraph (b).
- (f) 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. The Board notes that the Group's external auditor had, for FY2020, 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 same methodology was employed by Management for the financial period ended 30 June 2021.
- (g) The Board has reviewed the 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 ECLs in accordance with SFRS(I) 9 *Financial Instruments* has been adequately provided for as at 30 June 2021, and concurred with the Management's view that there is no indication to further impair the remaining trade and other receivables as at 30 June 2021.

By Order of the Board

Low Kok Ann
Executive Director and CEO
23 August 2021