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

GENERAL MEETINGS TO BE HELD ON 22 JUNE 2020
RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors (the "**Board**") of Hafary Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to update shareholders that the Company has received questions from the Securities Investors Association (Singapore) ("**SIAS**") in advance of the Annual General Meeting ("**AGM**") to be convened and held by way of electronic means on Monday, 22 June 2020 at 9.00 a.m. and the Extraordinary General Meeting ("**EGM**") to be convened and held by way of electronic means on the same day at 10.00 a.m. (or immediately after the AGM). Please refer to the SIAS website at https://sias.org.sg/qa-on-annual-reports/ for the list of questions ("**Questions**") received from SIAS. No questions were submitted by shareholders for the period between 5 June 2020 to 17 June 2020.

The Company and the Board wishes to provide its responses to the Questions as follows:-

Question 1:

Would the board/management provide shareholders with better clarity on the following operational/financial matters? Specifically:

(i) **Revenue - Project**: As shown in the 5-year financial highlights (page 18 of the annual report), the revenue from projects has gradually slipped from $63.9 million in FY2015 to $43.5 million in FY2019. **Can management help shareholders understand if it has maintained its market share in Singapore? Is the group still competitive in the B2B segment? What are the major opportunities in the next 18-24 months for the group to reverse the trend in the project segment?**

Response:

The Group's Project business involves the supply of surfacing materials to customers such as architecture and interior design firms, property developers and construction companies for both public and private property development projects in Singapore. Public sector projects include HDB upgrading, construction or upgrading of public buildings such as schools, hospitals, sport complexes and military camps and private sector projects include residential, commercial and industrial projects such as condominiums, shopping centres and hotels.

According to a Fitch Solutions report on 29 April 2020, Singapore's construction sector is now expected to contract sharply by 10.3 per cent this year, largely as a result of the COVID-19 outbreak. This has caused delays for both public and private sector projects and has consequently affected the Group's revenue recognition and progressive payments.

Notwithstanding this, the Group remains committed to weathering the challenging business environment and has strengthened its efforts to engage key contacts in it Projects business. The Group has and will continue to organise get-to know lunches with major interior design firms and project customers to better understand their requirements. To adapt to the changes brought about by COVID-19, the Group has developed a mobile application for its customers to provide them a one-stop platform to access the Group's catalog of more than 5,000 surfacing materials products. The Group continues to explore various strategies to support and reinforce its relationships with its customers and its various stakeholders in these challenging times.

(ii) **Gearing**: Net debt remained at $137 million (page 110) as at 31 December 2019. As shareholder's equity has increased gradually over the years, the net debt to equity ratio has improved from as high as 2.6x to 2.0x as at 31 December 2019.

LEVERAGE					
Net debt to equity ratio (times) (Net debt/ Shareholders' equity)	2.0	2.1	2.4	2.6	2.3
Interest cover (times) (EBITDA/ Finance cost)	5.2	5.2	5.4	6.1	7.3

(Source: company annual report)

With net debt increasing over the years, finance costs have increased from $2.7 million in FY2015 to $4.17 million (interest expense on borrowings; not including interest expense on lease liabilities of $368,000) in FY2019.

What guidance has the board given to management on the level of leverage given that the global economy has been severely impacted by the COVID-19 outbreak?

Response:

The gradual increase of finance costs from $2.7 million in FY2015 to $4.17 million in FY2019 was mainly due to the recognition of interests on bank borrowings to finance the acquisition and development of the World Furnishing Hub after its development was completed in August 2016. During the development phase, the interest expenses were capitalised under non-current asset as and when incurred.

The Group has experienced a decline in revenue, mainly due to restrictions imposed by the Government during the Circuit Breaker period. The showrooms are allowed to be re-opened on 19 June 2020. At the same time, the Group will continue its digital marketing efforts even with the easing of the restrictions in place and will continue to adhere to safe distancing measures.

The Group's initiatives to keep costs down include the postponing of non-strategic investment and deferral of non-essential expenditures. The Group will continue to pursue steps to contain costs and conserve cash. The Group is putting measures in place and preparing to receive customers when business resumes normal operations.

The Group has sufficient cash holding and undrawn credit facilities. Most of the outstanding borrowings undertaken by the Group are secured borrowings for which the estimated market value of pledged assets are in excess of the total facility amounts. The Group has received support from its principal banks who have each indicated that they are prepared to defer the repayment of loans principals and interests, if necessary. To build liquidity, the Group has obtained additional bank financing in the form of a temporary bridging loan and will tap on it, if required. Management has and will continue to implement measures to conserve the cash resources of the Group to sustain its business operations and ongoing projects to ensure the viability of the Group until the COVID-19 situation improves.

As shown on page 110, the group has 12 bank loans totaling $117.2 million that are on floating interest rates. In FY2019, the rates have mostly increased. For example, the rates for bank loan H increased from 2.42% to 3.34% in FY2018 to 3.21% to 3.42% in FY2019.

What were the reasons for the increase in interest rates in FY2019? How can the group reduce its interest costs?

Response:

The interest rates for certain of the Group's banking facilities are pegged to benchmark interest rates in Singapore, such as the SIBOR etc, which has gradually increased over the past years. This led to the increase in the variable interest rates in FY2019 as compared to FY2018.

The management is actively negotiating with the Group's bankers for more competitive interest rates. The Group has accepted the interest rate cut offers from its bankers during the Circuit Breaker period. The impact of the reduction in interest costs will be reflected in FY2020.

Question 2:

One of the bright sparks for the group in FY2019 was the continued strong performance of Viet Ceramics International Joint Stock Company ("VCI"). The share of profit from the 49% associate jumped 28.9% from $3.1 million in FY2018 to $4.0 million in FY2019.

This was attributed to the positive economic climate and higher level of construction activities in Vietnam.

(i) **With already 8 showrooms (Ho Chi Minh (5), Ha Noi (2) and Da Nang (1)), are there plans to scale up the network more extensively**?

Response:

In addition to the 8 showrooms, there are plans to open 3 additional showrooms in Danang, Ho Chi Minh and Hanoi, Vietnam. VCI has also increased its product offerings in FY2020, and has introduced a new Big Slab Tiles concept in year 2020.

Currently, the performance of the VCI has been affected by the COVID-19 outbreak. Nevertheless, the Group continues to be optimistic about Vietnam's property market, which is underpinned by its healthy economic growth, rapid urbanization rate and a growing middle class. The speed of economic recovery will be dependent on various factors, including the pace of gradual re-opening for economic activities, how Vietnam controls the further spread of COVID-19, the possibility of subsequent waves of outbreak and when a vaccine can be produced commercially and made universally available.

(ii) **What is the market share of VCI?**

Response:

There is no statistical data available for Vietnam market and VCI has approximately of total 4,211 retail and project customers as at 31 December 2019.

(iii) **How is group helping VCI to ride on the positive momentum in Vietnam and to establish itself as a market leader?**

Response:

The Group will continue to support VCI in terms of financial, skills, expertise and experiences for the expanding strategy of VCI. With over a 15-year track record, VCI has the ability to bring in internationally acclaimed brands ahead of local competition. Through strategically-located showrooms around Vietnam, VCI serves various customers including, homeowners, interior designers, contractors, architects and developers. VCI is also involved in public, private and commercial property developmental projects. With over 2,000 products sourced from around the world, VCI's collection of renowned tiles and bathroom solutions is able to respond and satisfy the diverse design needs promptly.

On the other hand, the group recognises the 46% investment in World Furnishing Hub Pte. Ltd. ("WFH") as a subsidiary as the group has management control over WFH. WFH has been incurring losses and it is in a net liabilities position of $(4.3) million as at 31 December 2019. **Can management elaborate further on the long-term plans for WFH?**

Response:

World Furnishing Hub is located at the epicenter of the International Furniture Park ("IFP"), positioned by Jurong Town Corporation as Southeast Asia's premier global marketplace for furniture and furniture-related industries. Approximately 270,000 square feet of the gross floor area of the 7-storey building is used for warehousing and other ancillary purposes, while approximately 30,000 square feet of commercial space will be used to house amenities to bring vibrancy into the IFP. The development of the building was completed in August 2016.

The Group's marble warehouse-cum-gallery is located at the top level of World Furnishing Hub and provides a comfortable environment for our customers to view and select their marble slabs and tiles. On the back of high demand for marble in recent years, our wholly-owned subsidiary, Hafary Pte Ltd, signed exclusive rights to distribute premium marble from world renowned Italian marble producers. With the official launch of our marble gallery in October 2018, the Group has brought the customers to the new concept of marble display and retailing. Its act as the role to support the operating costs of the listed company.

As disclosed on page 100 of the Annual Report 2019, WFH's loss has reduced as compared to FY2018. The Group has been actively seeking potential tenants for the renting of the vacant space in WFH.

Following the implementation of the Circuit Breaker measures in Singapore, the Group's showrooms in Singapore have temporarily suspended operations. The Singapore government has provided some support through the four Budgets, in the form of the Enhanced Jobs Support Scheme, property tax rebates to tenants and cash grants for qualifying SME tenants. To support our tenants in tiding over this difficult period, the Group is providing support and assistance to eligible tenants, such as rental rebates and also passing on the full amount of property tax rebates to the tenants of the building.

<u>Question 3:</u>

The board comprises 8 directors, 3 of whom are deemed independent. The independent directors are Mr Ong Beng Chye, Mr Terrance Tan Kong Hwa and Mr Chow Wen Kwan Marcus.

All three directors were appointed to the board on 10 November 2009. At the annual general meeting scheduled to be held on 22 June 2020, Mr Chow Wen Kwan Marcus, who is retiring pursuant to Article 104 of the Constitution of the Company, has indicated that he would not be seeking his re-election as a director of the Company at this Annual General Meeting.

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code") and the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which will come into effect on 1 January 2022.

Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subjected to a two-tier vote by shareholders.

(i) **Can the company help shareholders recall if it had appointed any new independent directors since its listing?**

Response:

The Company has not appointed any new independent directors since its listing on 7 December 2009.

(ii) **What is the search and nomination process for directors, especially independent directors? How does it support the board diversity policy?**

Response:

The Company has on page 41 of the Annual Report 2019, disclosed the search and the nomination process for a new director. Candidates would first be sourced through an extensive network of contacts and identified based on the needs of the Group and relevant expertise and experience required. Nominating Committee ("**NC**") may engage recruitment consultants to undertake research on or assess candidates for new position on the Board, or to engage such other independent experts, if necessary. After the Board has interviewed the candidates, the NC would further shortlist and recommend the candidates for appointment to the Board. The Board has the final discretion in appointing any new director.

In addition, the Company has on page 38 of the Annual Report 2019, disclosed the Board Diversity Policy has in place to achieving a sustainable and balance development at the Board. In designing the Board's composition and selection of new Board members, the Board will strive to ensure that:-

(a) all candidates are included for consideration during the search for new appointments to the Board regardless of gender, age, nationalities or ethnicity;

(b) there is appropriate mix of gender representation on the Board, taking into account the skills and experience the candidates can contribute; and

(c) external search consultants when looking for suitable candidates for appointment to the Board will be specifically directed to include diverse candidates and women candidates in particular.

(iii) **Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**

Response:

The Company has evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the Board. Currently, the Board consists of nine Directors, of whom three are considered independent by the Board, including the Chairman of the Board. Non-executive directors also make up a majority of the Board.

The Board has initiated discussions on the costs, benefits and downsides of the refreshments of its members, where one of our independent directors is stepping down after our forthcoming AGM. The Board is also prepared to comply with the 2-tiered shareholder approval requirement for re-appointment of independent directors who have served on the board for more than 9 years when such requirement comes into effect on 1 Jan 2022.

While the Board recognises the benefits of refreshing its independent members, the Board also takes into account the depth of knowledge, experience and familiarity regarding the management and operation of the Group's business that the independent directors have acquired over the years, which enables the independent directors to critically and accurately evaluate and analyse any actions and business decisions taken by the Group, with a view of ensuring proper adherence to corporate governance requirements and internal control procedures.

By Order of the Board

Low Kok Ann
Executive Director and CEO
19 June 2020