



SMJ INTERNATIONAL HOLDINGS LTD.
(Incorporated in the Republic of Singapore)
(Company Registration Number: 201334844E)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (THE “SIAS”) ON THE ANNUAL REPORT

The Board of Directors (the “**Board**”) of SMJ International Holdings Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the query raised by the SIAS on 6 April 2017 in relation to the Group’s Annual Report for the financial year ended 31 December 2016 and appends the replies as follows:

Question 1

In the “Distribution Network” section (page 2 of the annual report), it was disclosed that one of the group’s “major strengths is having a large inventory program of approximately \$4.6 million in Singapore”. The CEO has also mentioned the inventory reduces the wait time, thus enhancing the value the group can bring to the clients (page 4 – CEO’s statement). There was a slight increase in inventories in 2016 as the group purchased the new range of products from “Mohawk Group” (page 15).

However, total revenue dropped 21% to \$16.3 million in 2016 and the outlook of the private sector is “expected to remain subdued due to economic uncertainties and the property market slowdown” (page 4). Also, in Note 14 (page 70 – Inventories), it was disclosed that the group had “inventories write-off of \$199,000 (2015: Nil) and inventories write-down of \$119,000 (2015: Nil) during the financial year”.

- (a) **Would it be prudent for the company to better optimise the inventory levels given that the volume of business has fallen?**
- (b) **Can the group further improve its inventory management with the use of technology and by working closer with its suppliers without compromising the service standards?**

Company’s response to (a):

- The Group was appointed as the exclusive distributor of Mohawk Industries, Inc. (“**Mohawk**”) to distribute its “LEES”, “Bigelow” and “Duracolor” range of carpets for Singapore, Malaysia and Indonesia in November 2015. These new products were only accounted for in FY2016. Mohawk’s factory is located in the United States of America and it takes approximately 10-12 weeks to manufacture and deliver the carpets to Singapore. Most of the projects in Singapore and Asia only have 4-6 weeks to complete the renovation work. Hence, the Group keeps stock of Mohawk carpets in order to cater for such projects with a short lead time. As a result, the Group’s inventory value increased as the cost of these American-made Mohawk carpets are generally more expensive than the SMJ carpets which are manufactured by factories in Asia.

Company’s response to (b):

- The Group is currently using SAP inventory cum accounting system to manage its inventory. The Group also maintains good relationship with its suppliers and works closely with them without compromising the service standards.

Question 2

The group has obtained shareholders' approval to diversify into property investment and management. Two new subsidiary corporations, namely Elite Management (Singapore) Pte. Ltd. and Beijing Zhuoyue Tiancheng Business Management Co. Ltd, have been incorporated in Singapore and China respectively to carry out the property business.

- (a) **Can management elaborate further on the strategic direction of the new real estate business?**
- (b) **Given that the group has total equity of \$16.4 million, how does the group intend to fund the new property investment and management business?**

Company's response to (a):

- As and when appropriate opportunities arise, the Group is seeking opportunities for the following activities:
 - (a) to acquire and hold investments in residential, hospitality, commercial (retail and office), industrial and any other suitable types of properties (including mixed development properties) ("**Property Related Assets**"), and holding the same for long term investment for the collection of rent, capital growth potential and/or provision of property related services and facilities;
 - (b) to trade in properties including but not limited to, buying and selling of Property Related Assets with reasonable yield and/or capital growth potential; and
 - (c) the management of Property Related Assets.

The Group may also, invest in or purchase or otherwise acquire or dispose of any such assets, investments and shares or interests in any entity that is in the new real estate business.

Currently, the Group does not have any definitive plans for property investment or trading. However, it intends to focus its strategic efforts on property management, in particular, for the tourism real estate business and the related property management services in China due to the Company's belief that there is an increasing demand.

Company's response to (b):

- As mentioned in the Company's response to 2(a), the Group intends to focus its strategic efforts on property management. As property management business is not capital intensive, the current Group's equity is sufficient to fund such business.

In the event if additional funding is required, the Company may fund the new property investment and management business through a combination of internal sources of funds and borrowings from financial institutions. The Directors will determine the optimal mix of internal funding and bank borrowings, taking into account the cash flow of the Group and the prevailing bank financing costs.

As and when necessary and deemed appropriate, the Group may explore secondary fund raising exercises by tapping the capital markets including but not limited to rights issues, share placements and/or issuance of debt instruments. The Group also may collaborate with third parties in appropriate opportunities.

Question 3

On 23 August 2016, the company announced that a substantial shareholder, Lui Oi Kheng, has sold and a new substantial shareholder, Zhang Tianbao, has bought 23.4 million shares, representing 29.95% of the company's shares.

On 26 September 2016, the company announced the appointment of Peng Fei and Peng Weile as Non-executive director and Executive director respectively with effect from 3 October 2016. Both individuals were recommended to the board by Mr Zhang Tianbao.

Mr Peng Weile is responsible for spearheading the group's property management business. It was also disclosed in Mr Peng's profile that he is the Managing Director of the Investment Banking department of Fu Hua Holdings Limited and the executive director of Forise International Limited since October 2015.

- (a) **Given that Mr Peng has several roles in various firms with different stakeholders, how does Mr Peng ensure that he can commit the time and be able to handle the demands of these three roles and discharge his duties effectively?**
- (b) **Would Mr Peng be put in a situation where he has conflicts of interests?**
- (c) **Can the nominating committee confirm that Mr Peng's executive role in the group is not a full time position and that this is the appropriate arrangement for the group as it moves into the new property business?**

Company's response to (a):

- Mr Peng has sufficient experience and resources to handle his role in the Group as well as the new business of the Group. Mr Peng no longer has an executive role in Fu Hua Holdings Limited and is fully committed to his two roles as Executive Director of both the Company and Forise International Limited. Mr Peng will allocate his time in performing the duties required for these two roles. Mr Peng's role in the Group is to bring his resources to and drive the strategic direction for the new property business. He will not be involved in the day-to-day operations and will be supported by the staffs in executing the strategies for the property business.

Company's response to (b):

- The principal business of Forise International Limited is the manufacture of undergarment which is different from the Group's carpet trading and property management business. As far as Mr Peng is aware, he has no conflicts of interests. In addition, Forise International Limited has no objection to his role in the Group.

Company's response to (c):

- Mr Peng will bring his resources to the new property business and the Board will evaluate and decide should any opportunity arise. The nominating committee of the Company confirmed that Mr Peng's executive role in the Group is not a full time position and this is an appropriate arrangement given that Mr Peng's key duty is to drive the strategic direction for the new property business. Future resources will be added to the property business when it becomes mature and the minimization of any full time employees pending the execution of any definitive plans is prudent from a cost management perspective.

By Order of the Board

Rena Ho Pei Yuen
Executive Director and Chief Executive Officer
11 April 2017

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor Hong Leong Finance Limited (the "**Sponsor**") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement.*

This announcement has not been examined or approved by SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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