

Issuer: Hafary Holdings Limited

Security: Hafary Holdings Limited

Meeting details:

Date: 13 April 2018

Time: 11.30 a.m.

Venue: 8 Wilkie Road, #03-08 Wilkie Edge, Singapore 228095

Company Description

Hafary Holdings Limited, an investment holding company, imports, deals, distributes, and wholesales building materials in Singapore, the People's Republic of China, Vietnam, the Republic of the Union of Myanmar, Indonesia, and internationally. The company operates in three segments: General, Project, and Others. It offers ceramic and porcelain tiles; stone tiles, such as granite, limestone, marble, quartz, composite quartz, and marble tiles; wood flooring materials, including engineered timber, solid hardwood, laminates, vinyl, and outdoor decking products; and sanitary ware and fittings comprising accessories, basins, bathtubs, faucets, showers, water closets, pools, and sinks. The company serves architecture, interior design, and renovation firms, as well as property developers and construction companies. It also engages in dealing stones and wood for home furnishings; and property development activities. The company was founded in 1980 and is headquartered in Singapore. Hafary Holdings Limited is a subsidiary of Hap Seng Consolidated Berhad.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5VS)

1. The group reported higher revenue of \$115.8 million, an increase of 5.7% from a year ago and profit attributable to owners of the company amounted to \$8.75 million, up 7.0%. Gross profit margin improved slightly to 39.8% for FY2017 although finance costs and amortisation and depreciation expense increased by 32.8% and 40.2% respectively due to the completion of World Furnishing Hub. Impairment losses increased by a hefty 77.4% to \$1.8 million in FY2017 due to higher allowance for the impairment of inventories.

Revenue from the “Project” segment reached \$52.8 million, accounting for 45.6% of the group’s revenue although the operating results before income taxes and others (ORBIT) dropped from \$1.7 million in FY2016 to just \$240,000 in FY2017.

- (i) **Given the recent spate of en bloc sales and the much improved market sentiments, what are the plans by the “Project” segment to capture a larger share of the upcoming major (re)development projects? How can the “Project” segment improve its profitability?**

Inventories increased from \$50.9 million to \$51.2 million. In Note 23 (page 101 – Inventories), it is disclosed that allowance recognised for impairment losses of inventory increased from \$472,000 to \$1.499 million in 2017. The impairment allowance on inventories is a key audit matter in the Independent Auditor’s Report (page 58).

- (ii) **Can management explain in greater detail the reason for the huge impairment of inventories in FY2017? What improvement has been made to the group’s processes to reduce the risk of slow moving inventories?**

2. As noted in the Financial Review (page 21), profit before income tax (PBIT) generated from recurring activities was \$6.6 million while the share of results from the Vietnam associate, Viet Ceramics International Joint Stock Company (“VCI”), was \$3.3 million.

Given its explosive growth (nearly 60% growth) and increasing profitability (over 70% higher), VCI is becoming increasingly important to the group.

- (i) **As VCI is recognised as a 49% associate, what is the level of influence and control over the strategic, financial and operational matters of VCI?**
- (ii) **What are the ways the group is helping VCI to grow and to scale up quickly and profitably in Vietnam?**
- (iii) **Has the group re-assessed VCI’s potential in the Vietnamese market? Given its growth rate and market size, can it be as large as the group’s Singapore core operations?**

On the other hand, the joint venture company, Melmer Stoneworks Pte. Ltd., has reported its first loss, slipping from a profit of \$66,000 to a loss of \$(382,000) in 2017 with revenue dropping 15% at the same time.

- (iv) **What were the reasons for the drop in revenue and profit?**
- (v) **How scalable and profitable is Melmer’s business of the fabrication, polishing and profiling of stone and marble slabs for household and commercial purposes?**
- (vi) **With over 5 years of track record, has the group reassessed the potential of the JV company and devised an appropriate growth plan for it?**

3. As seen in the company's Corporate Governance Statement, the board is made up of 8 directors, three of which are independent, including the chairman. The other 5 members consists of the Executive director and Chief Executive Officer, and 4 non-independent non-executive directors.

- (i) **Given the company's market capitalisation, the scope and nature of the operations of the group, can the nominating committee (NC) and the board help shareholders understand why the current board size and composition is appropriate for the company and how it facilitates effective decision-making?**

All three independent directors were each first appointed to the board on 10 November 2009 and would have served on the board for more than eight years from the date of their first appointment.

- (ii) **Can the NC describe the company's plans for a smooth and progressive renewal of the board to ensure board stability and continuity?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Hafary%20Holdings%20Ltd>

The company's response could be found here: -----

All the questions sent to the company related to their past Annual Reports could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Hafary%20Holdings%20Ltd>

The company's response to the questions on the 2016AR could be found here: -----