

**Issuer:** Kitchen Culture Holdings Ltd.

**Security:** Kitchen Culture Holdings Ltd.

**Meeting details:**

Date: 27 October 2017

Time: 2.00 p.m.

Venue: 25 New Industrial Road, #02-01 KHL Industrial Building, Singapore 536211

**Company Description**

Kitchen Culture Holdings Ltd., an investment holding company, sells and distributes imported kitchen systems, kitchen appliances, wardrobe systems, and household furniture and accessories in Singapore, Hong Kong, Malaysia, the People's Republic of China, and internationally. It operates through Residential Projects, and Distribution and Retail segments. The Residential Projects segment engages in designing, assembling, installing, testing, and inspection of various furniture and fittings, kitchen equipment, and related products. The Distribution and Retail segment sells and distributes products through a network of authorized dealers and retailers. The company was founded in 1991 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=5TI](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5TI))

**Q1.** From Note 28 (page 104 – Segment information), the core business unit that deals with “Residential Projects” reported segment revenue for the 18 months up to 30 June 2017 of \$32.6 million, while reporting a segment loss of \$(4.2) million. This accounted for 60% of the group’s total loss of \$(6.9) million for the 18 months up to 30 June 2017.

The Residential Projects segment results in 2015, 2014 and 2013 were \$(3,201,768), \$(27,380) and \$2,938,679 respectively while the group’s results were \$(2,599,165), \$(1,358,802) and \$(1,358,802) respectively.

Over the past 3.5 years, the Residential Projects segment has reported accumulative losses of \$(7.4) million. The reason given for the decrease in gross profit margin is that the company has taken on “a number of large scale projects which had smaller margins” (page 15).

The recent 3.5 year trend suggests that the group has been unable to obtain sufficient margin and has not been able to capture the value-add of its products and services. The compressing margins, coupled with higher structural costs, has made the core business increasingly unprofitable.

**a) Would it be prudent for the board to carry out a strategic review of the group’s core businesses?**

The new business opportunities, such as going into the mass market, expanding KCROOM and relaunching of the Pureform brand, appear to be marginal steps at trying to improve margins and profits. In addition, given the current financial position of the group, it would be hard to scale these efforts meaningfully.

**b) Can management help shareholders understand the capital required for each of these new initiatives/efforts?**

**c) What are the major milestones and what are the targets set by management for each of these new initiatives?**

**d) Would the new initiatives be expected to generate positive cash flows for the group?**

**Q2.** In the Independent Auditor’s Report (page 46), the auditors have stated that the audit was conducted accordance with Singapore Standards on Auditing and as part of the auditor’s responsibilities for the audit of the financial statements, the auditor had:

*“Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.”*

**a) Can the current Independent Auditor confirm that, in their professional judgement, no material uncertainty exists relating to events or conditions that may cast significant doubt on the group’s ability to continue as a going concern?**

In the previous financial period, the company had announced on 7 July 2016 that the then-auditor had issued an emphasis of matter in respect of the group’s ability to continue as a going concern in the Independent Auditor’s Report on the audited financial statements of the company and its subsidiaries for the financial year ended 31 December 2015.

Since then, the group has reported a further net loss of \$(6.9) million, an overall decrease in cash and cash equivalent of \$(3.3) million, and as 30 June 2017, in a cash and cash equivalent position of \$(229,845). Total equity attributable to shareholders amount to \$269,973, down from \$6.2 million. The group had breach in its facility covenant and would be required to reduce the overdraft amount of S\$541,667 (as at 20 September 2017) by S\$50,000 monthly with effect from 1 November 2017. Currently, the group’s (secured) non-convertible bond of \$750,000 bears interest of 9% per annum and is repayable in full on 18 May 2019. Borrowings

from non-financial institutions bear interest at 10% fixed rate per annum and is repayable upon maturity on 30 April 2017 (of which the maturity dates have been extended to 31 December 2018).

- b) Can the Independent Auditor help shareholders understand how it had, based on the audit evidence obtained, conclude that there exists no material uncertainty that may cast significant doubt on the group's ability to continue as a going concern?
- c) Can the audit committee elaborate further on why it believes use of the going concern assumption in the preparation of the financial statements is appropriate?

Q3. The resignation and changes in key management personnel are summarised in the following table:

Role	Name	Date	Approximate length of service
Chief Operating Officer	Lim Soon Kiat Lucien	Up to 5 January 2015	
	Tye Seng Kuen Alan	15 January 2016 - 23 September 2016	8 months
Chief Financial Officer	Lim Yii Fan	Up to 16 January 2016	
	Lim Swee Hua	16 June 2016 - 31 March 2017.	9 months
Finance Manager	Lim Thiam Guan	16 January 2016 - 26 April 2016	3 months
Financial Controller	Tan Cheong Hwai	1 April 2017 - 4 September 2017	5 months
General Manager (Project and Retail, Design Development Division)	Mr Mahmud Bin Abdul Karim	Up to 29 April 2016	
General Manager (Appliances Division)	Terrence Liew Fook Siong	Up to 2 August 2017	

(Source: Company annual report)

- a) It is the usual practice of the company to present the key management team following the profiles of the directors in the annual report. **For the key appointments that are filled, can the company help shareholders understand the profile of the its existing key management team?**
- b) **Could the board and the nominating committee (NC) comment on the frequent changes to the key management team? What is the board and the NC doing to ensure that there is a stable and capable management team to execute on the group's strategies? How does the board and the NC intend to build up the depth and experience of the core management team and to retain the team?**
- c) **Can the independent directors help shareholders understand the culture in the company and its subsidiaries?**