

Issuer: Koda Ltd

Security: Koda Ltd

Meeting details:

Date: 27 October 2017

Time: 10.00 a.m.

Venue: 28 Defu Lane 4, Singapore 539424

Company Description

Koda Ltd, an investment holding company, designs, manufactures, wholesales, and retails furniture and fixtures in the United States, the United Kingdom, Vietnam, Canada, New Zealand, Australia, Spain, Korea, China, Malaysia, Saudi Arabia, Japan, France, Singapore, Russia, the United Arab Emirates, and internationally. It operates in four segments: Chairs and Tables, Outdoor and Garden Furniture, Bedroom Furniture, and Occasional and Other Furniture. The company offers wood, upholstered, and metal chairs; solid wood, veneered, and metal dining tables; cabinets; living room furniture, including coffee/console tables, entertainment units, bookcases/display units, home offices, and sofas/armchairs; and bedroom furniture, such as beds, bedside tables, dressers, and chest of drawers. It is also involved in the inlaying of marble on wood; and interior decoration activities. In addition, the company holds investment properties; and operates as a timber merchant. Koda Ltd was founded in 1972 and is headquartered in Singapore.

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

Q1. As noted in the Managing Director’s Statement (page 14 of the annual report), the United States of America is the group’s largest export market, accounting for US\$19.1 million of the total revenue of \$49.5 million in 2017. The largest customer of the group accounted for US\$7.3 million in revenue.

- a) Can management let shareholders know how many major customers are there in the United States of America?
- b) Through the sales network of the major customers (i.e. large well-known furniture brands), what is the footprint of the group in the USA? Are there regions/states in the USA that contribute significantly to the group’s revenue?

Q2. According to Commune’s website, there are currently four Commune stores in Singapore, namely the Flagship Store at Raffles Boulevard (Millenia Walk), the Paragon Store, the IMM Store and the Commune Experience Centre at Defu Lane.

- a) Are there plans to expand the group’s retail network in Singapore?
- b) What are management’s views on the future of furniture retail, especially in the luxury/high-end category? What is the group’s strategy to ride on the growing trend of online shopping?

The distribution costs have increased from US\$3.3 million in 2016 to US\$4.1 million in 2017. The increase of US\$0.8 million was attributed to higher showroom rental costs in Singapore and higher logistics costs (page 7).

GROSS PROFIT	15,920	10,275	54.9	←	GROSS PROFIT
Other income	772	1,657	(53.4)	←	Rose by US\$5.6 million propelled by higher revenues. Gross margin rose to 32.2% in FY2017 compared to 27.7% in FY2016 as a result of
Distribution costs	(4,096)	(3,278)	25.0	←	
Administrative expenses	(7,215)	(5,770)	25.0	←	(i) improved factories and supply-chain efficiencies
Other expenses	(385)	(472)	(18.4)	←	(ii) higher revenue and margin contribution from <i>Commune</i>
Share of results of associate	(1)	1	NM		
Finance costs	(33)	(59)	(44.1)	←	OTHER INCOME
					Fell by US\$0.89 million in the absence of gains on disposal of our investment in Rossano
PROFIT BEFORE INCOME TAX	4,962	2,354	110.8		
Income tax expense	(912)	(771)	18.3		
PROFIT FOR THE YEAR	4,050	1,583	155.8	←	DISTRIBUTION COSTS
					Rose by US\$0.09 million – due mainly to
					(i) higher showroom rental costs in Singapore
					(ii) higher logistics costs for increased shipments in Vietnam and China

(Source: Company annual report)

- c) Can the company provide a breakdown of the distribution costs?

Q3. The group has paid the deposits for purchase of property, plant and equipment (PPE) amounting to US\$548,000. This relates to the “deposit placed for the purchase of land and buildings in Vietnam”.

- a) Since the deposit is recognised as part of the group’s PPE, can management provide better clarity on the expansion plans assuming that the group is in the process of setting up a new factory in Vietnam? If so, what is the scale of the factory and when would it be ready?

On page 145 (Particulars of properties owned by the group), the group no longer lists its Vietnam Factory at Tan Tao Industrial Park, Binh Tan District, Ho Chi Minh City, Vietnam.

- b) Has the group sold the Tan Tao factory?

In Note 16 (page 125 – Property, plant and equipment), leasehold buildings in Vietnam were recognised at US\$5.0 million in 2017 (2016: \$nil). The footnote explained that:

During the year, the Group adopted a revaluation model for leasehold buildings in Vietnam. In prior years, leasehold buildings in Vietnam was categorised as a separate class of assets as it allows for different usages by the Group.

- c) **Can management help shareholders understand what had caused the changes and if there are major operational developments and/or policy shifts on the ground in Vietnam that led to these changes?**

Lastly, the group's head office and warehouse at 28 Defu Lane 4 has a lease expiry in 2018.

- d) **What are the group's plan for its operations in Singapore?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

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

The company's response could be found here:

https://sias.org.sg/media/qareport/company_responce/1478847298_Koda-Ann-BusinessUpdate-ResponsetoSIAS.pdf