Issuer: Singapore Kitchen Equipment Limited
Security: Singapore Kitchen Equipment Limited

Meeting details:
Date: 25 April 2018
Time: 4.00 p.m.
Venue: 115A Commonwealth Drive, #01-30 Tanglin Halt, Industrial Estate, Singapore 149596

Company Description

Singapore Kitchen Equipment Limited, an investment holding company, provides commercial and industrial kitchen solutions in Singapore, Malaysia, Vietnam, Indonesia, Cambodia, India, and internationally. It operates through two segments, Fabrication and Distribution, and Maintenance and Servicing. The Fabrication and Distribution segment manufactures and sells standard and customized kitchen systems, as well as kitchen equipment under the Innoflame and Qoolux brands to food and beverage, and hospitality service industries. It also engages in the import, wholesale, and retail of kitchen equipment; and design, consultancy, fabrication, installation, and distribution of stainless steel kitchenware and commercial kitchens. The Maintenance and Servicing segment provides preventive maintenance works and repairs on kitchen equipment. The company serves central kitchens, restaurants, integrated resorts, membership clubs, and hotels, as well as government agencies, developers, and owners of residential properties. The company was founded in 1996 and is based in Singapore. Singapore Kitchen Equipment Limited is a subsidiary of QKE Holdings Pte. Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5WG)

Q1. As noted in the Chairman and MD Statement, both business segments showed good growth and the group recognised a revenue of $30.7 million in FY2017, up $26.2 million from a year ago (page 6 of the annual report). Net profit attributable to equity shareholders slipped to $1.3 million for FY2017 (2016: $2.6 million).

It was further disclosed that:

> *Against a challenging operating environment and labour market, the Group was able to achieve a steady performance during the year by executing strategies that increased revenue for FY2017 with an* ***adjustment in profitability.*** *We strive to further build up the Group's presence in large corporations and government agencies through* ***very competitive pricing*** *[emphasis added].*

a) Would the board clarify that the group's new strategy is to gain market share primarily by cutting prices?

b) Have the board and management carefully analysed the competitive landscape and unanimously agree on such a strategy?

Profit margin (before tax) for the Fabrication and distribution business dropped from 14.9% to 8.2% in FY2017. In the Maintenance and servicing segment, profit margin (before tax) dropped from 5.4% to 1.4%.

c) Going forward, what kind of profitability can shareholders expect if the group is going to be a price leader?

Q2. As the business scales up, the group has also taken on increasing credit risks. The "recoverability of trade receivables from third parties" is one of two key audit matters highlighted by the Independent Auditor in their Report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As at 31 December 2017, the carrying value of the Group's trade receivables from third parties amounted to $8,045,098, which constitutes approximately 30% of the Group's total assets.

The age analysis of trade receivables that are past due but not impaired is as follows (page 105 – Note 30.1 Credit risks):

The age analysis of trade receivables as at the end of the reporting period that are past due but not impaired is as follows:

	Group	
	2017	2016
	$	$
Past due 1 to 60 days	3,756,660	3,833,533
Past due 61 to 180 days	1,084,154	1,621,423
Past due 181 to 365 days	711,687	534,952
Past due over 365 days	1,180,703	404,672
	6,733,204	6,394,580

(Source: Company annual report)

Trade receivables past due over 365 days but not impaired have increased by nearly two-fold to $1.18 million as at 31 December 2017, up from just $404,672 a year ago.

a) Are there extenuating circumstances that led to trade receivables past due over 365 ballooning to $1.18 million?

b) What is the breakdown of the trade receivables past due over 365 days by the number of debtors, amount owed, aging and the financial condition of the debtors.

c) What guidance has the audit committee (AC) given to management to ensure that the group does not take on excessive credit risk?

d) How robust is the group's credit evaluation process? How does the AC oversee this?

Q3. On 17 January 2018, the company announced that it would be seeking a dual primary listing of its ordinary shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "SEHK") by way of a share offer.

Reasons provided for the GEM listing were:

- Ready access to two different equity markets in the Asia Pacific region
- Increase market visibility of the Company to potential customers
- Attract investors with different profiles such as private and institutional investors
- Potentially widen the investor and shareholder base of the Company, thereby improving the liquidity of its Shares

a) Which of the reason is deemed mission-critical for the company at this stage of its growth?

b) Has the company estimated the total costs of the proposed secondary listing?

c) Although the proposed listing may increase market access, how does the board intend to position and market the group to investors in the HKEx since the group has no operations in the market (other than its first deal made in December 2017)?

d) Would it be pre-mature for the company to seek a Hong Kong listing even before it achieves any foothold and/or scale in the Hong Kong/China market?

e) Should the company successfully list on the HKEx, would the listing requirements of two exchanges be prohibitively high for a small company?

f) How does management ensure that the core operations in Singapore/Malaysia will not be disrupted or affected as management works towards the dual primary listing?