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Issuer: Samurai 2K Aerosol Limited

Security: Samurai 2K Aerosol Limited

Meeting details:

Date: 25 July 2018

Time: 10.00 a.m.

Venue: Suntec Singapore Convention & Exhibition Centre, Meeting Room 323, Level 3, 1 Raffles Boulevard, Suntec City, Singapore 039593

Company Description

Samurai 2K Aerosol Limited, an investment holding company, engages in the manufacture, distribution, and marketing of aerosol coatings for the automotive refinishing and refurbishing industry. The company operates through three segments: Paint – Standard; Paint – Premium; and Maintenance and Others. The Paint – Standard segment offers standard color aerosol spray paint products. The Paint – Premium segment provides fluorescent, candy, and metallic color aerosol spray paint products; high temperature aerosol spray paint products; primer products; epoxy products; and 2K products, as well as multi-color one aerosol spray paint products. The Maintenance and Others segment offers cosmetic products, such as metal and paint polish; and maintenance products, including engine degreasers, chain oils, and carburetor and gasket cleaners, as well as brake cleaners, spray greases, motorcycle shampoos, tire shining products, and tire inflators. The company sells its products under the Samurai, Kurobushi, Khameleon, Canbrush, Ninjutsu, Geiji, CanArt, and Bushido brands. It has operations in Malaysia, Indonesia, Thailand, the Philippines, Vietnam, the United Kingdom, the United States, and Singapore. Samurai 2K Aerosol Limited was founded in 1997 and is headquartered in Skudai, Malaysia.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=1C3)

1. In the CEO's Statement, the grant of the invention patent to the group's wholly-owned subsidiary, Orientus Industry Sdn Bhd, from the relevant authorities in the United States of America and Canada for its "Single Head 2K System" was highlighted (page 2 of the annual report).

In addition, the group also participated in the Specialty Equipment Market Association Show 2017, ("SEMA Show") held at Las Vegas, the United States of America from 31 October 2017 to 3 November 2017.

- (i) Can management help shareholders understand the potential of the addressable markets in the USA and Canada?**
- (ii) If the group is expanding to North America, what is the group's market entry strategy for these new markets?**
- (iii) Are there tangible results from the SEMA Show?**
- (iv) Would the expansion to USA/Canada stretch the management team given that the group is also expanding rapidly in the South-east Asian Markets?**

2. In the offer document dated 9 January 2017, the maximum production capacity of the group at the group's sole manufacturing plant in Johor was stated as 7.73 million (page 127 of the Offer document) for FY2016.

In FY2017, the group's sales volume jumped to 9.02 million cans and in FY2018, it further increased to 15.83 million cans.

The group has been expanding its production capacity as its property, plant and equipment increased from RM10.86 million as at 31 March 2017 to RM16.11 million as at 31 March 2018.

- (i) Can management disclose the current production capacity at the Johor plant?**
- (ii) How many production lines are there currently? Is there space at the site for further expansion to support the business?**
- (iii) Can management help shareholders understand the capacity expenditure required to set up a new production line? How long would it take to set up a new production line?**
- (iv) Manpower was cited as a limiting factor to the group's ability to expand. Given that the production volume has increased significantly, can management help shareholders understand the current strength of its production team? How much of the processes have been automated to reduce reliance on manpower?**

3. On 26 June **2018**, the company made an announcement titled “Material adjustments between the audited financial statements and the unaudited financial statements for the financial year ended 31 March 2018.”

It disclosed that the external auditor has proposed reclassifications following the finalisation of the audit that involved the adjustments made to the receivables and property, plant and equipment, of up to RM253,000.

On 23 June **2017**, the company also made a similar announcement for the financial year ended 31 March 2017. For the previous financial year, the external auditor had proposed reclassifications following the finalisation of the audit of the following items:

- Inventories: RM250,000
- Trade and other payables: RM4,126,000
- Property, plant and equipment: RM4,563,000
- Repayment of loan from directors: RM4,377,000
- Proceeds from bank borrowings: RM4,563,000

The audit committee (AC) comprises Mr. Lim Siang Kai (as chairman), Mr. Hau Hock Khun and Mr. Sia Yeak Hong. The board has stated the following:

The AC has at least two members, including the AC Chairman, who have recent and relevant accounting and related financial management expertise and experience. They are Mr Lim Siang Kai and Mr Sia Yeak Hong. (page 32)

- (i) Can the AC members elaborate further and help shareholders understand their individual relevant and recent accounting expertise and/or experience?**
- (ii) What is the role of Mr. Hau Hock Khun in the AC?**
- (iii) As the directors have responsibilities to oversee the group’s financial reporting process, can the directors, especially the directors in the AC, help shareholders understand their individual and collective efforts in the preparation of the group’s financial statements to give a true and fair view in accordance with the provisions of the Act and FRSS?**
- (iv) Has the AC evaluated if the internal finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (v) What improvement has the AC made to the group’s systems and processes?**