Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: China Kunda Technology Holdings Limited

Stock code: GU5

Meeting details:
Date: 27 August 2020
Time: 9.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. As noted in the chairman's statement, the group is seeking shareholders' approval to expand its core business to include the research and development, trading, manufacturing and/or marketing of medical devices and other related services.

The company has stated that the proposed diversification is complementary to the group's existing business. The group already possesses the know-how of In-Mould Decoration ("IMD") and plastic injection which can be applied to the production of medical devices.

At the end of 2017, the group ceased the production of automobile components. Since 2018, the manufacture and sale of IMD and other plastic components have been the group's core business. The group also has a fledgling furniture business that was started in December 2018.

However, the group recognised loss after tax of HK$(6.7) million in 2020. In FY2018 and FY2019, the losses from continuing operations were HK$(1.5) million and HK$(4.8) million respectively.

(i) **Given that the losses in the past three years amount to HK$(13.0) million, can management help shareholders understand the group's competitive advantage in IMD and plastic components?**

(ii) **In particular, how efficient and cost-effective are the group's operating entities? What is the level of automation on the production floor?**

(iii) **Does the group have any proprietary technology that would differentiate it from its competitors?**

(iv) **Given the weak performance in the current business, how confident is management that it can leverage its current operations to enter the medical devices segment profitably as a new entrant? What is the gestation period for the proposed medical devices segment?**

(v) **Is there sufficient bandwidth within the senior management team to drive the new business and to turnaround the existing businesses?**

Q2. The company has disclosed, in the Corporate governance report, that it does not have a fixed dividend policy. The form, frequency and amount of dividends will depend on the company's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the directors may deem appropriate (page 36).

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The company further added that, due to the group's subdued financial performance and intention to invest in new business opportunities, no dividend has been declared or recommended for the current reporting period to conserve cash for its current and future business needs.

According to the SGX website, the last and only time the company paid a dividend was in August 2009. The dividend declared was $0.005 per share.

(i) **Can the board elaborate further on the deliberations it has had on the declaration of dividends?**

(ii) **What was the hurdle rate used by the board when it approved the group's expansion and diversification plans?**

(iii) **Would the board consider re-evaluating its capital structure so that it can balance the need to support the group's growth and the need to provide returns to its capital providers in a sustainable way?**

Q3. At the annual general meeting scheduled to be held on 27 August 2020, Mr Hau Khee Wee and Mr Lam Kwong Fai are retiring and would be seeking their re-election.

Information on the directors seeking re-election in accordance to Appendix 7F of Catalist Rules can be found on pages 19 to 24 of the annual report.

As disclosed, Mr Hau, will upon being re-elected as a director of the company, remain as the lead independent director, chairman of the audit committee, and a member of the nominating committee ("NC") and remuneration committee.

According to the disclosure, Mr Hau was the executive director and chief financial officer of the company from May 2007 to March 2016 (executive director, with effect from 26 December 2007).

Mr Hau was then appointed as a non-executive director in December 2017 and was re-designated as an independent director in April 2019. In October 2019, Mr Hau was appointed the lead independent director.

(i) **As the chairman of the audit committee, would Mr Hau be put in a position where there is a high risk of self-review?** Mr Hau was the executive director and CFO from May 2007, prior to the company getting listed in October 2008. Mr Hau would have been responsible for many of the systems, processes and internal controls put in place for the group as the CFO prior to the listing.

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On page 14, the company has stated that the NC recognise that a two-tier shareholders' vote will be required in on or before 1 January 2022 for the long-tenured directors, Mr Lim and Mr Hau, to remain as independent directors.

(ii) **Has the board considered early-adopting the two-tier shareholders' vote on the independence of the long-tenured directors?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)