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Issuer: Karin Technology Holdings Limited

Security: Karin Technology Holdings Limited

Meeting details:

Date: 25 October 2018

Time: 10.00 a.m.

Venue: Topaz & Opal Room, Level 2, Sheraton Towers Singapore, 39 Scotts Road, Singapore 228230

Company Description

Karin Technology Holdings Limited, an investment holding company, distributes electronic components, provides computer data storage management solutions and services, and distributes and retails consumer electronics products in Hong Kong, Mainland China, and internationally. The company provides electronic components, including Bluetooth, connectors, integrated circuits, LCD units, MEMs, quartz crystals, and semi-conductors; industrial materials comprising batteries, power semi-conductors, connectors, power supplies and semiconductors, process automation products, and special application cables; and computer hardware and software. It also provides integrated circuit application design and development solutions; and power supply solution services, as well as distributes industrial cables, and computer products and peripherals. In addition, the company provides application delivery traffic management solution services; backup/recovery solution services; maintenance support services; migration/upgrade, and network and security solution services; Oracle database solution services; server consolidation and virtualization services; server equipment installation and configuration services; server relocation services; and storage implementation services, as well as technical support services on consumer products. Further, it engages property business. The company was founded in 1977 and is headquartered in Kwun Tong, Hong Kong.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=B16)

1. The IT Infrastructure segment has been the main contributor of revenue in three of the last four financial years and the main contributor of profit in the past 4 years, (without considering the retail business). A summary of the performance of the IT infrastructure segment is shown in the table below:

IT Infrastructure	FY2015 HK\$'000	FY2016 HK\$'000	FY2017 HK\$'000	FY2018 HK\$'000
Segment revenue	908,556	915,396	944,274	936,953
Segment results	36,364	28,515	32,974	23,064

(Source: Company annual reports)

As detailed in Note 4 (page 85 – Operating segment information), the “IT Infrastructure” operating segment engages in the provision of computer data storage management solutions and services.

- (i) Would the company help shareholders understand, in layman’s term, the typical types of solutions and services provided by the group in the IT infrastructure services segment? Is the segment still focusing on data storage management solutions and services (as described in Note 4 – Operating segment information)?**
- (ii) Can the company elaborate further on how it organises itself, especially with the new Business Supporting System (BSS) team and the Engineering Solutions and Service (ESS) team? Do the BSS and the ESS teams serve both the Components Distribution segment and IT Infrastructure segment?**
- (iii) Who are the major customers and what is the typical profile of a customer in the IT Infrastructure segment? How does the business acquire new customers?**
- (iv) Does management have an estimate of the group’s market share?**
- (v) What are management’s plans to scale up the business and to capture a larger market share given that segment revenue has increased by approximately 3-5% from the FY2015 level?**
- (vi) In FY2018, segment profit dropped to HK\$23.1 million, the lowest segment profit in the past 4 years, down by 1/3 from the peak of \$36.4 million in FY2015. Are there specific reasons for the sharp decline in the gross profit of the segment?**

Separately, can management also help shareholders understand if the escalating trade tension between US and China will impact the group’s Components Distribution business?

2. In the 2016 Annual Report, it was disclosed that the group’s then-subsiary, KCF A Store Limited, was negatively impacted by the increase in number of Apple flagship stores in Hong Kong. Given the level of competition in the market, the board considered it was in the

best interest in the group to dispose of its 60% interests in KCF and focus on its core business of Components Distribution and IT Infrastructure Solutions and Services business. The retail arm was disposed of on 30 June 2016.

On 28 February 2018, the company made an SGX announcement stating that it was going to acquire 80% of the existing issued and paid-up share capital of KCF A Store Limited at a cash consideration of HK\$2,000,000.

The rationale given by the company is as follows:

RATIONALE

KCF is principally engaged in the operation of retail chain stores selling the full range of Apple products. In view of the present market conditions especially in the sale of Apple products, the Board considers it is in the best interest of the Group to re-invest in KCF and extends the Group's business into retail market.

(Source: Company announcement dated 28 February 2018)

In fact, the group has recorded a gain on bargain purchase of HK\$2.695 million under "Other income and gains, net" in the consolidated financial statements.

- (i) What are the changes to the market dynamics for the retail of Apple products since 2016?**
- (ii) What is the current scale of the retail chain stores operated by KCF?**
- (iii) What changes will management be making to the business model/retail operation of KCF that will make it viable and profitable?**
- (iv) Can management share some of its projections/targets used to support its (re)investment thesis of KCF?**
- (v) How much more capital will the group be investing in the retail business?**

3. In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 Code"). As a consequence of the revised 2018 Code, the Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

- (i) Has the board reviewed the 2018 Code and evaluated how it will impact the company?**

In particular, the company's three independent directors were appointed on 20 January 2005 and 13 July 2012. While the board has taken steps to progressively refresh the board

with the appointment of an independent director in 2012, the transition of chairmanship in 2014 and the changes in executive directorship in 2018, all three independent directors will be subject to the 9-year limit as independent director when the rule comes into effect in 2022.

- (ii) To avoid undue disruption and to maintain institutional knowledge and continuity, what are the company's near term plans to further refresh the board composition, especially the independent directors?**

- (iii) What is the company's search and nomination process for directors, especially independent directors?**

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=Karin%20Technology%20Holdings%20Ltd>

The company's response could be found here: -----