



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Kitchen Culture Holdings Ltd.

Security: Kitchen Culture Holdings Ltd.

Meeting details:

Date: 24 October 2018

Time: 2.30 p.m.

Venue: 2 Leng Kee Road, #01-08 Thye Hong Centre, Singapore 159086

Company Description

Kitchen Culture Holdings Ltd., an investment holding company, sells and distributes imported kitchen systems, kitchen appliances, wardrobe systems, and household furniture and accessories under the Kitchen Culture brand name. It operates through Residential Projects, and Distribution and Retail segments. The Residential Projects segment engages in the designing, assembling, installing, testing, and inspection of various furniture and fittings, kitchen equipment, and related products. The Distribution and Retail segment sells and distributes products through a network of authorized dealers and retailers. The company also operates a chain of food kiosks specializing in Australian beef steaks with live teppanyaki cooking. Kitchen Culture Holdings Ltd. offers its products under the Poggenpohl, Hacker, LA Cornue, Pureform, Eggersmann, Snaidero, Rational, Bora, Liebherr, Inventum, Steel, Küppersbusch, V-Zug, Artanova, KFF, Bluform, Matsuoka, Draenert, MGS, Falper, Teckell, Fimes, Tisettanta, Fusital, and Valli & Valli brand names. It has operations in Singapore, Hong Kong, Malaysia, the People's Republic of China, and internationally. Kitchen Culture Holdings Ltd. was founded in 1991 and is based in Singapore. (Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5TI)

1. As disclosed in Note 2 (page 53 of the annual report – Going concern), the group incurred a net loss of \$(4.0) million for the financial year ended 30 June 2018 (2017: \$(6.9) million). Although net operating cash inflow was \$1.0 million for the year, the group is in a net working capital deficit of \$(2.1) million.

The directors have opined that the use of going concern assumption in the preparation of the financial statements for the financial year ended 30 June 2018 is appropriate due to the following factors:

- (a) the new contracts secured by the Group amounting to \$6.1 million as announced on 9 February 2018;
- (b) potential contracts in the pipeline totalling \$2.8 million;
- (c) continuing financial support provided by a substantial shareholder, Mr Lim Wee Li who has extended a total loan amount of \$2.8 million to the Group for working capital purposes as at 30 June 2018. In addition, Mr Lim has undertaken to provide any further financial support to enable the Group to continue in operations for the next 12 months from the date of these financial statements, if the need arises;
- (d) addition of new brands of appliances to the Group's portfolio of products;
- (e) plans to broaden the Group's business by entering the mass market sector through a re-launch of the Group's Pureform brand for kitchen and wardrobe systems, and any interior fit-out solutions;
- (f) plans to expand the Group's businesses through KROOM, which retails premium kitchen appliances and accessories, and kitchen and wardrobe systems; and
- (g) possible plans to convert a portion of shareholder's loans and/or other loans granted to the Company into new ordinary shares in the capital of the Company.

As at 30 June 2018, the cash and cash equivalents of the group amounted to \$321,821, down from \$755,017 a year ago.

The above-mentioned reasons, with the exception of (c) and (g), would actually use up more cash and add further stress to the group's already precarious financial position.

- (i) Can the board further justify why (a), (b) and (d) – (f) above would improve the group's financial standing and the group's ability to discharge its liabilities in the normal course of business?**
- (ii) Can the board also help shareholders understand the extent of undertaking provided by Mr Lim Wee Li to enable the group to continue in operations for the next 12 months?**
- (iii) Has the board evaluated the options available to the group to allow it to strengthen the balance sheet?**
- (iv) Further to the debt conversion that was completed on 28 June 2018, has the board/company started negotiation with other shareholders/directors/third parties to convert any such loans into new equity shares?**

2. In FY2018, the group reported revenue of \$14.4 million and continued to report a loss for the year, which amounted to \$(4.02) million.

S\$'000	FY2018	FP2017	FY2015	FY2014
Revenue	14,388	49,552	26,610	22,104
Cost of sales	(8,111)	(34,895)	(13,946)	(12,625)
Gross profit	6,277	14,657	12,664	9,479
Other income	485	247	1,072	134
Selling and distribution expenses	(4,510)	(10,028)	(9,143)	(7,286)
Other operating expenses	(780)	(561)	(5,098)	(148)
General and administrative expenses	(4,785)	(9,901)	(5,159)	(3,234)
Finance costs	(702)	(1,332)	(835)	(298)
Share of results of joint venture	-	-	-	-
(Loss)/Profit before tax	(4,015)	(6,918)	(6,499)	(1,353)
Tax credit/(expense)	-	-	452	(41)
(Loss)/Profit for the year	(4,015)	(6,918)	(6,047)	(1,394)

(Source: Company annual report)

In fact, the group has been loss-making in the past 4 financial years, with losses ranging from \$(1.4) million to \$(6.9) million, and a cumulative loss in the past 4 years of \$(18.4) million.

- (i) **Can management help shareholders understand its core competence in operations, particularly in sourcing for material/products, designing, project management, outsourcing, cost-controlling and project delivery?**
- (ii) **What are the reasons for the large and continuing losses for the group in the past 4 years?**
- (iii) **For the two new projects announced on 9 February 2018, what is the level of oversight, monitoring and guidance by the board to ensure that these projects are delivered in a timely and profitable manner?**
- (iv) **What assurance can management give to shareholders that these new projects will turn out profitable and can generate value for shareholders?**

3. The audit committee (AC) comprises three independent directors, namely Mr Ong Beng Chye (as chairman), Mr Kesavan Nair and Ms Joanne Khoo Su Nee.

On 9 October 2018, the company announced that there are material variances between the unaudited results (first announced by the company on 29 August 2018) and the audited financial statements for FY2018 after the finalisation of audit.

Reasons given included:

- Trade receivables increased due to reclassification from other receivables
- Trade receivables increased due to contract work done not invoiced

- Revenue decreased due to reclassification of retail revenue (service income and sundry income) to other income
- Cost of sales increased due to cost of inventories delivered to customers not accounted for
- Other income decreased due to foreign exchange gain being reclassified to other operating expenses
- Selling and distribution expenses decreased due to reclassification of sales commission paid to members of staff totalling S\$243,928 to general and administrative expenses

Following the finalisation of audit, the equity attributable to owners of the company dropped from \$(1,058,261) to \$(1,300,662), a decrease of 22.9%, and the loss for the year increased from \$(3.77) million to \$(4.01) million.

The company has also announced material adjustments for the financial year ended 30 June 2017 (18 months) and 30 December 2015. The company has had to make material adjustments in each of the past 3 financial years.

It is the responsibility of management to prepare the financial statements to give a true and fair view in accordance with the provisions of the Act and FRSSs.

(i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the provisions of the Act and FRSSs?

In accordance with Section 201B(5) of the Singapore Companies Act and the Code of Corporate Governance, the AC's responsibilities include the review of the periodic consolidated financial statements comprising the statement of comprehensive income of the group, statement of cash flows of the group, statements of financial position of the group and the company and statements of changes in equity of the group and the company and such other information required by the Catalist Rules before submission to the board for approval.

- (ii) Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (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 so as to give a true and fair view in accordance with the provisions of the Act and FRSSs?**
- (iv) Please provide shareholders with a detailed plan of the improvements to be made to the group's financial reporting processes.**

4. [The following question on key management personnel was posted to the company last year based on the annual report for the financial year ending 30 June 2017. As the company did not respond and there has been further changes to the key management team, the question is reposted with updates.]

The resignation and changes in key management personnel are summarised in the following table:

Role	Name	Date	Approximate length of service
Chief Operating Officer	Lim Soon Kiat Lucien	Up to 5 January 2015	-
	Tye Seng Kuen Alan	15 January 2016 - 23 September 2016	8 months
Chief Financial Officer	Lim Yii Fan	Up to 16 January 2016	-
	Lim Swee Hua	16 June 2016 - 31 March 2017	9 months
Finance Manager	Lim Thiam Guan	16 January 2016 - 26 April 2016	3 months
Financial Controller	Tan Cheong Hwai	1 April 2017 - 4 September 2017	5 months
General Manager (Project and Retail, Design Development Division)	Mr Mahmud Bin Abdul Karim	Up to 29 April 2016	-
General Manager (Appliances Division)	Terrence Liew Fook Siong	Up to 2 August 2017	-

(Source: Company annual report)

- (i) **Is the group still looking for suitable candidates to fill the positions of General Manager (Project and Retail), Chief Operating Officer and Chief Financial Officer?**
- (ii) **Could the board and the nominating committee (NC) comment on the frequent changes to the key management team? What is the board and the NC doing to ensure that there is a stable and capable management team to execute on the group's strategies? How does the board and the NC intend to build up the depth and experience of the core management team and to retain the team?**
- (iii) **Can the independent directors help shareholders understand the culture in the company and its subsidiaries?**



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A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

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

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

