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Issuer: Koda Ltd

Security: Koda Ltd

Meeting details:

Date: 31 October 2018

Time: 10.00 a.m.

Venue: 28 Defu Lane 4, Singapore 539424

Company Description

Koda Ltd operates as an original design manufacturer of furniture specializing in ready-to-assemble wood-based dining room furniture. The company operates through Manufacturing, and Retail and Distribution segments. It also produces other household furniture ranges, such as bedroom, lounge, and outdoor/garden furniture. The company works with various wood species and non-wood supplements to produce approximately 300 furniture models, which include themed designs and matching occasional pieces to form suites and collections. It is also involved in the inlaying of marble on wood; and interior decoration activities. In addition, the company operates as a timber merchant. It serves customers in approximately 50 countries comprising wholesalers, distributors, and retailers. Koda Ltd was founded in 1972 and is headquartered in Singapore.

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

1. Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) **Commune:** With 45 stores in China as at 30 April 2018 and a target to hit 100 stores by 2020, management has about 2 years to more than double its network of stores in China. The non-executive chairman has expressed his confidence that it is the right time to grow the brand strongly. **Would the non-executive chairman like to elaborate further to help shareholders understand the reasons for his strong conviction? How is the board helping management to ensure that the expansion is built on solid foundations and that management (and the supply chain) will not be overstretched?**

In addition, how many stores will the group be opening in the first tier cities, such as Shanghai, Beijing, Shenzhen? Does the group have a differentiated strategy as it moves into the lower-tier cities where the consumer taste and preference, purchasing power, brand awareness and population density may be different?

- (ii) **Trade war:** The US is the group's single largest export market. Whilst management has said that trade tensions have not affected the export-oriented manufacturing business or Commune, has it evaluated the impact if imported furniture/Vietnam is targeted by the US as part of its more aggressive trade policies?
- (iii) **Defu Lane head office & warehouse (operations):** The group's property has a lease that will expire on 30 November 2018 and the leasehold property will be subject to approval for any lease extensions to be granted by the lessor at the time of the lease expiry. **Given the short lease balance, can management update shareholders on its plans for the Singapore head office and warehouse? How critical is the Defu Lane site for the group's operations? Would it be prudent for the group to have made plans as part of its business continuity efforts? Does management have a plan B?**
- (iv) **Defu Land head office & warehouse (valuation):** As seen in Note 14 (pages 134 to 137 – Property, plant and equipment), can management clarify if the carrying value of the leasehold building (Singapore), i.e. 28 Defu Lane 4, is US\$757,000 as at 30 June 2018? What is the fair value of the property given that its lease will expire on 30 November 2018?
- (v) **Industry 4.0/Smart manufacturing:** With the new industrial property in Vietnam, has management evaluated how it could leverage on technology to implement smart manufacturing processes at its new factory?

2. Mr Chan Wah Tiong who is retiring pursuant to Regulation 89 of the company's Constitution is seeking his re-election at the Annual General Meeting scheduled to be held on 31 October 2018. Mr Chan was first appointed to the board on 1 October 2001.

In addition, Mr Sim Cheng Huat was first appointed on 1 March 2008.

Mr Chan and Mr Sim would have been first appointed to the board for more than 17 years and 10 years respectively. As recommended in the 2012 Code of Corporate Governance, the independence of Mr Sim and Mr Chan, whom each having served on the board for more than 9 years, was subject to particularly rigorous review.

Further, 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 company evaluated the impact of the 2018 Code and the amendments to the Listing Rules on the board?

The company appointed Mr. Tan Choon Seng and Mr Ying Siew Hon, Francis to the board on 18 November 2016.

(ii) Can the nominating committee help shareholders understand what is the search and nominating process for directors, especially independent directors?

(iii) Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?

3. At the Extraordinary General Meeting scheduled to be held on 31 October 2018, the company is proposing the adoption of the Koda Performance Share Plan 2018 (PSP2018).

This is set to replace the Koda Performance Share Plan 2008 (PSP2008) which is set to expire and lapse on 28 October 2018.

Under the PSP2008, the shares allotted and issued pursuant to the vesting of awards under the PSP2008 are subject to a two year moratorium from the date such shares are allotted and issued. The company had granted awards to 4 participants, namely, Mr Koh Zhuxian Joshua, Mr Koh Zhulian Julian, Mr Wong Se Sun and Mr Gan Shee Wen. Two associates of controlling shareholders, namely Mr Koh Zhuxian Joshua and Mr Koh Zhulian Julian have been awarded up to 117,000 shares and up to 123,000 shares respectively.

Management had designed the PSP2008 to achieve the following positive objectives:

- (a) to motivate such Employees to optimise standards and efficiency and to maintain a high level of performance and contribution;
- (b) the attraction and retention of Employees whose contributions are important to the long-term growth and profitability of our Group;

- (c) the attainment of harmonious employer-employee relations; and
 - (d) the development of a participatory style of management which instills loyalty and a stronger sense of identification with the long-term goals of our Group.
- (i) What are the performance metrics to be used by the remuneration committee (RC) to decide on the number of shares that will vest?**
 - (ii) Has the RC evaluated the PSP2008 to assess its effectiveness in achieving the positive objectives listed above?**
 - (iii) Is there a moratorium on the shares given out under the new PSP 2018?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 and 30 June 2016 could be found here:

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

The company's response could be found here:

2017

https://sias.org.sg/media/qareport/1509329722_Koda-ResponsestoSIASQuestions-26.10.2017.pdf

2016

https://sias.org.sg/media/qareport/1478847298_Koda-Ann-BusinessUpdate-ResponsetoSIAS.pdf